



**CITY OF LODI
COUNCIL COMMUNICATION**

TM

AGENDA TITLE: Adopt Resolution Approving Forms of an Installment Purchase Contract, a Certificate Purchase Contract, Official Statement and a Continuing Disclosure Agreement Relating to Wastewater System Revenue Certificates of Participation, 2004 Series A; and Approving and Authorizing Certain Other Matters Relating Thereto

MEETING DATE: April 27, 2004

PREPARED BY: Public Works Director

RECOMMENDED ACTION: That the City Council adopt the attached resolution approving forms of an Installment Purchase Contract, a Certificate Purchase Contract, Official Statement and a Continuing Disclosure Agreement relating to Wastewater System Revenue Certificates of Participation, 2004 Series A; and approving and authorizing certain other matters relating thereto.

BACKGROUND INFORMATION: The attached financing documents for the White Slough project are the result of numerous meetings with our financial advisor, the underwriter and legal counsel(s). A representative from our advisor, Public Financial Management, Inc., will be available at the meeting to answer questions.

Approval of the financing requires the prior adoption of the proposed rate increases being considered at this same meeting.

The attached resolution concerns approval, execution and delivery of the COP documents listed below:

1. Installment Purchase Contract
2. Certificate Purchase Contract
3. Preliminary Official Statement
4. Continuing Disclosure Agreement
5. Official Statement (delivered later)

FUNDING: Wastewater Fund

Vicky R. Paiste for
Vicky McAthie, Finance Director

Richard C. Prima, Jr.
Richard C. Prima, Jr.
Public Works Director

RCP/pmf
Attachments

APPROVED:

H. Dixon Flynn
H. Dixon Flynn, City Manager

INSTALLMENT PURCHASE AGREEMENT

by and between

CITY OF LODI

and

LODI PUBLIC IMPROVEMENT CORPORATION

Dated as of May 1, 2004

relating to

**CITY OF LODI
WASTEWATER SYSTEM REVENUE
CERTIFICATES OF PARTICIPATION
2004 SERIES A**

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INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT, made and entered into as of May 1, 2004, by and between the CITY OF LODI, a municipal corporation duly organized and existing under and by virtue of the laws of the State of California (the "City"), and the LODI PUBLIC IMPROVEMENT CORPORATION, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation").

WITNESSETH:

WHEREAS, the City has established the System (capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to Section 1.1) to provide for the collection, treatment and disposal of wastewater; and

WHEREAS, the City proposes to make certain additions, betterments, extensions, replacements and improvements to its System constituting the Project and more fully described in Exhibit A hereto; and

WHEREAS, the Corporation is authorized to enter into contracts for the acquisition and sale of facilities such as the Project; and

WHEREAS, the Corporation has agreed to assist the City by acquiring or causing the acquisition of the Project as herein provided and selling the Project to the City on the terms and conditions set forth herein; and

WHEREAS, the City and the Corporation have duly authorized the execution of this Agreement;

WHEREAS, the Corporation will assign certain of its rights hereunder, including its right to receive Installment Payments, to Union Bank of California, N.A., as Trustee under the Trust Agreement; and

WHEREAS, pursuant to the Trust Agreement, the Trustee is to execute and deliver City of Lodi Wastewater System Revenue Certificates of Participation, 2004 Series A, evidencing the proportionate interests of the Owners thereof in the Installment Payments; and

WHEREAS, the proceeds of the sale of the Certificates are to be applied, among other things, to finance the Costs of the Project; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings given such terms in the Trust Agreement, such following definitions to be equally applicable to both the singular and plural forms of any of the defined terms.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations by the City. The City represents, warrants and certifies as follows:

(a) The City is a municipal corporation duly organized and existing under and pursuant to the laws of the State of California. The City has full legal right, power and authority to enter into this Agreement and carry out its obligations hereunder, to carry out and consummate all transactions contemplated by this Agreement, and the City has complied with the provisions of all applicable law in all matters relating to such transactions. By proper action, the City has duly authorized the execution, delivery and due performance of this Agreement.

(b) The City will not take or permit any action to be taken which results in the interest component of the Installment Payments being included in the gross income for purposes of federal income taxation or not being exempt from personal income taxes of the State of California.

(c) The City has determined that it is necessary and proper for City uses and purposes within the terms of all applicable law that the City finance the acquisition of the Project in the manner provided for in this Agreement.

(d) All acts, conditions and things required by the Constitution and statutes of the State to have been performed, to have happened and to exist precedent to and in connection with the execution and delivery of this Agreement, have been performed, have happened and do exist in regular and due time, form and manner as required by law.

Section 2.2. Representations and Warranties by the Corporation. The Corporation represents and warrants that the Corporation is a nonprofit, public benefit corporation duly organized and in good standing under the laws of the State of California, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all

transactions contemplated by this Agreement and by proper action has duly authorized the execution, delivery and due performance of this Agreement.

ARTICLE III

ACQUISITION OF THE PROJECT

Section 3.1. Sale and Purchase of Project. In consideration for the Corporation's assistance in financing the Project through the execution and delivery of this Agreement and the Trust Agreement, the City agrees to act as the Corporation's agent for purposes of construction and acquisition of the Project. The City will proceed with the acquisition and construction of the Project as provided in Section 6.12. The Corporation will make the amounts on deposit in the Improvement Fund available to the City for this purpose, as provided in the Trust Agreement.

In consideration for the Installment Payments as set forth in Section 4.2, the Corporation agrees to sell, and hereby sells, to the City, and the City agrees to purchase, and hereby purchases, from the Corporation, the Project at the Purchase Price specified in Section 4.1 and otherwise in the manner and in accordance with the provisions of this Agreement.

Section 3.2. Title. All right, title and interest in each element and component of the Project shall vest in the City immediately upon execution and delivery of this Agreement or, if later, the acquisition of any rights with respect to such element or component.

ARTICLE IV

INSTALLMENT PAYMENTS

Section 4.1. Purchase Price.

(a) The Purchase Price to be paid by the City to the Corporation for the purchase of the Project is the sum of the principal components of the Installment Payments set forth in Exhibit B hereto plus the interest components of the Installment Payments which consist of the sum of the interest to accrue on the unpaid balance of each such principal component at the interest rate set forth in Exhibit B hereto.

(b) The interest component of the Installment Payments shall accrue from the Delivery Date to the date of payment of the applicable principal component, including any prepayment thereof pursuant to Article VII. The interest component shall be computed on the basis of a 360-day year of twelve 30-day months. The interest component of the Installment Payments shall be paid by the City as and constitute interest paid on the principal components of the Installment Payments.

Section 4.2. Installment Payments and Additional Payments. The City shall, subject the provisions of Section 10.1 and to any rights of prepayment provided in Article VII, pay the Corporation the Purchase Price in installment as follows: (i) each principal component of the Installment Payments is payable on the Installment Payment Date preceding the due date for such principal component set forth in Exhibit B hereto in the amount specified for such due date in Exhibit B hereto; and (ii) the interest components of the Installment Payments shall be payable

on the Installment Payment Date preceding each Interest Payment Date in the amount of accrued interest on the unpaid balance of the principal components of the Installment Payments at the respective interest rates per annum set forth in Exhibit B hereto. Such interest shall be calculated on the basis of a 360-day year consisting of twelve 30- months. The schedule of the principal and interest components as of the Delivery Date are set forth in Exhibit C hereto. The amounts shown in Exhibit C hereto shall automatically be adjusted to account for any prepayment of Installment Payments made by the City pursuant to Article VII and any discharge of Installment Payments pursuant to Article IX.

Each Installment Payment shall be paid to the Corporation in lawful money of the United States of America. In the event the City fails to make any of the payments required to be made by it under this Section, such payment shall continue as an obligation of the City until such amount shall have been fully paid; and the City agrees to pay the same with interest accruing thereon at the highest rate of interest then applicable to the remaining unpaid principal components of the Installment Payments.

The obligation of the City to make the Installment Payments is absolute and unconditional, and, until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the City will not discontinue or suspend any Installment Payment required to be made by it under this Section, whether or not the System or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part. This Agreement shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the Installment Payments and all other payments required hereunder, and such payments shall be net payments and shall not be subject to deduction, abatement reduction or diminution, whether by offset or otherwise, and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

In addition to the Installment Payments, the City shall also pay such amounts (“Additional Payments”) as shall be required for the payment of all fees and administrative costs of the Corporation and the Trustee under the Trust Agreement or otherwise relating to the Certificates, including without limitation all expenses, compensation and indemnification of the Corporation and the Trustee payable by the City hereunder and under the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Corporation or charges required to be paid by it to comply with the terms hereof of the Certificates or of the Trust Agreement or to indemnify the Corporation and its employees, officers and directors and the Trustee.

ARTICLE V

SECURITY

Section 5.1. Pledge of System Net Revenues. All System Net Revenues and all amounts on deposit in the System Revenue Fund are, pursuant to the Pledge Law, hereby irrevocably pledged to the payment of the Installment Payments as provided herein and shall not be used for any other purpose until all Installment Payments have been fully paid or provision has been made for such payment in accordance with Section 9.1; *provided* that out of the System

Revenues and amounts on deposit in the System Revenue Fund, there may be apportioned such sums for such purposes as are expressly permitted herein. This pledge, together with the pledge of System Net Revenues and amounts in the System Revenue Fund securing all other Parity Debt, shall, subject to application as permitted herein, constitute a first lien on System Net Revenues and amounts on deposit in the System Revenue Fund.

Section 5.2. Allocation of System Revenues. In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants that all System Revenues shall be received by the City in trust hereunder and, except for Net Proceeds, shall be deposited when and as received in a special fund designated as the "System Revenue Fund", which fund the City has heretofore established and which fund the City agrees and covenants to maintain and to hold separate and apart from other funds until all Installment Payments have been fully paid or provision has been made therefor in accordance with Section 9.1. To the extent the City has an existing fund which satisfies the foregoing requirements, then such fund shall be deemed to be the "System Revenue Fund" and the City shall not be required to create a new fund. The City may maintain separate accounts within the System Revenue Fund. The amounts in the System Revenue Fund shall be invested in Authorized Investments. Moneys in the System Revenue Fund shall be used and applied by the City as provided in this Agreement.

The City shall, from the moneys in the System Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter, all remaining moneys in the System Revenue Fund shall be set aside by the City at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in this Section and, as to funds held under the Trust Agreement, the Trust Agreement.

(a) Installment Payments. Not later than each Installment Payment Date, the City shall, from the moneys in the System Revenue Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The City shall also, from the moneys in the System Revenue Fund, transfer when due to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any Parity Obligation Payments in accordance with the provisions of the applicable Parity Obligations.

(b) Reserve Fund. On or before the first Business Day of each month, the City shall, from the remaining moneys in the System Revenue Fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee as provided in Section 3.04 of the Trust Agreement for deposit in the Reserve Fund in accordance with the Trust Agreement and to the applicable trustee for such other debt service reserve funds, if any, as may have been established in connection with Parity Obligations that sum, if any, necessary to restore: (i) the Reserve Fund to an amount equal to the Reserve Fund Requirement and otherwise replenish the Reserve Fund for any withdrawals (including draws upon the Reserve Policy) to pay the Installment Payments due hereunder; and (ii) necessary to restore such other debt service reserve funds for Parity Obligations to an amount

equal to the amount required to be maintained therein; *provided* that payments to restore the Reserve Fund after a withdrawal may be made in monthly installments equal to 1/12 of the aggregate amount needed to restore the Reserve Fund to the Reserve Fund Requirement as of the date of the withdrawal. To the extent that draws on the Reserve Fund are from the Reserve Policy as permitted under the definition of Reserve Fund Requirement in the Trust Agreement, transfers hereunder to restore the Reserve Fund shall be made to reimburse the provider of the Reserve Policy to the extent the Reserve Policy is reinstated.

The City shall be obligated to make payments to the Certificate Insurer for draws on the Reserve Policy only to the extent of draws on the Reserve Fund relating to this Agreement. Interest shall accrue and be payable on draws under the Reserve Policy and all related reasonable expenses incurred by the Certificate Insurer from the date of payment by the Certificate Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by [JP Morgan Chase Bank (N.A.)] at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by [JP Morgan Chase Bank (N.A.)]) plus 3%, and (ii) the then applicable highest rate of interest on the unpaid principal component of the Installment Payments and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event [JP Morgan Chase Bank (N.A.)] ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Certificate Insurer shall specify. Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw (provided that the City may repay the Policy Costs in full at any time during this period).

If the City shall fail to pay any Policy Costs in accordance with the requirements set forth above, the Certificate Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided hereunder and under the Trust Agreement other than (i) acceleration of the maturity of the principal component of the Installment Payments or (ii) remedies which would adversely affect Owners of the Certificates.

For purposes of the additional Parity Debt test in Section 5.3(c) and the rate covenant in Section 6.8(b), System Net Revenues shall provide at least one times coverage of the Policy Costs then due and owing in addition to the other coverage requirements therein.

(c) Surplus. Moneys on deposit in the System Revenue Fund not necessary to make any of the payments required above in a Fiscal Year may be expended by the City at any time for any purpose permitted by law, including but not limited to payments with respect to Subordinate Obligations and deposits to the Rate Stabilization Fund.

Section 5.3. Additional Parity Debt. The City may at any time enter into or otherwise incur Parity Debt in addition to the obligations under this Agreement and the Parity Payment Obligations under the Prior Agreements; *provided*:

(a) The City shall be in compliance with all agreements, conditions, covenants and terms contained in this Agreement required to be observed or performed by it, and a Certificate of the City to that effect shall have been filed with the Trustee (with the consent of the Certificate Insurer this condition shall not apply where the purpose of the proposed Parity Debt is to cure such non-compliance).

(b) Any debt service reserve fund established for such Parity Debt shall satisfy the following criteria: (i) such debt service reserve fund shall be held by an independent trustee (who may be other than the Trustee); (ii) the required amount of such debt service reserve fund shall not exceed the lesser of the maximum annual debt service of such Parity Debt (calculated on the basis of a year ending on the principal payment date of such Parity Debt) or the maximum amount permitted under the Code, *provided* that, if such Parity Debt is a loan from a governmental agency, then a debt service reserve fund shall be established in the amount, if any, required or permitted by such governmental agency; and (iii) the City shall not be required to replenish withdrawals from such debt service reserve fund on terms less favorable to the City than the terms for replenishing the Reserve Fund pursuant to Section 5.2(b).

(c) The System Net Revenues for the last completed Fiscal Year or any 12 consecutive months within the last 18 months preceding the date of entry into or incurrence of such Parity Debt, as shown by a Certificate of the City on file with the Trustee, plus an allowance for increased System Net Revenues arising from any increase in the rates, fees and charges of the System which was duly adopted by the City Council of the City prior to the date of the entry into or incurrence of such Parity Debt but which, during all or any part of such 12 month period, was not in effect, in an amount equal to the amount by which the System Net Revenues would have been increased if such increase in rates, fees and charges had been in effect during the whole of such 12 month period, as shown by a Certificate of the City on file with the Trustee, shall have produced a sum equal to at least 110 percent of the Maximum Annual Debt Service as calculated after the entry into or incurrence of such Parity Debt; *provided*, that in the event that all or a portion of such Parity Debt is to be issued for the purpose of refunding and retiring any Parity Debt then outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Debt being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service; *provided further*, that the City may at any time enter into or incur Parity Debt without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Debt is outstanding will not be increased by reason of the entry into or incurrence of such Parity Debt; and *provided further*, an adjustment shall be made in the amount of System Net Revenues as provided in Section 5.4. The provisions of this subsection are subject to the requirements of the fourth paragraph of Section 5.2(b).

Nothing contained in this Section shall limit the issuance of any revenue bonds, notes or other evidences of indebtedness or the entry into any installment purchase agreement by the City payable from the System Net Revenues and secured by a lien and charge on the System Net Revenues if, after the issuance of such revenue bonds or entry into such installment purchase

agreement, all of the Installment Payments shall have been fully paid or provision has been made therefor in accordance with Section 9.1. Furthermore, nothing contained in this Section shall limit the issuance or incurrence of any Subordinate Obligations.

Section 5.4. Rate Stabilization Fund. The City has heretofore established a special fund known as the “Rate Stabilization Fund” which shall be held and maintained by the City until all Installment Payments have been fully paid or provision has been made therefor in accordance with Section 9.1. The City may, subject to the provisions of Section 5.2, during or within 210 days after a Fiscal Year, transfer surplus System Net Revenues attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) from the System Revenue Fund to the Rate Stabilization Fund. The City may at any time transfer moneys from the Rate Stabilization Fund to the System Revenue Fund. Notwithstanding anything to the contrary provided herein, System Net Revenues deposited into the Rate Stabilization Fund shall not be taken into account as System Revenues for the Fiscal Year to which such deposited System Net Revenues are attributable for purposes of the calculations in Sections 5.3 and 6.8(b) and amounts withdrawn from the Rate Stabilization Fund and deposited into the System Revenue Fund may be taken into account as System Revenues for purposes of the calculations required under Sections 5.3 and 6.8(b) for the Fiscal Year in which such deposit is made; *provided* that, for purposes of the calculation required under Section 6.8(b), the amount of System Net Revenues before any credits for transfers from the Rate Stabilization Fund to the System Revenue Fund may not be less than 100% of Annual Debt Service for such Fiscal Year. The amounts in the Rate Stabilization Fund shall be invested in the Authorized Investments.

ARTICLE VI

COVENANTS OF THE CITY

Section 6.1. Punctual Payment. The City will punctually pay the Installment Payments in strict conformity with the terms hereof and will faithfully satisfy, observe and perform all agreements, conditions, covenants and terms hereof.

Section 6.2. Legal Existence. The City will use all means legally available to maintain its existence.

Section 6.3. Against Encumbrances. The City will not mortgage or otherwise encumber, pledge or place any charge or lien upon System Revenues. The City will not mortgage or otherwise encumber, pledge or place any lien or charge upon any of the System Net Revenues on a parity with the pledge securing the payment of the Installment Payments except for Parity Obligations as provided herein. The City will not issue or incur any obligations secured by System Net Revenues senior to the Parity Debt. The City may at any time issue any Subordinate Obligations.

Section 6.4. Against Sale or Other Disposition of the System. The City will not sell or otherwise dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the System Net Revenues, unless the Installment Payments have been fully paid or provision has been made therefor in accordance with Section 9.1. The City will not enter into any lease or agreement which impairs the operation of the System or any part

thereof necessary to secure adequate System Net Revenues for the payment of the Parity Debt, or which would otherwise impair the rights of the Owners with respect to the System Net Revenues or the operation of the System.

Section 6.5. Maintenance and Operation of System. The City will maintain and preserve the System in good repair and working order at all times and will operate the System in an efficient and economical manner.

Section 6.6. Insurance.

(a) To the extent such insurance is available for reasonable premiums from a reputable insurance company, the City will procure and maintain at all times insurance on the System against such risks (including accident to or destruction of the System) and in such amounts as are usually insured in connection with operations in California similar to the System; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

(b) The City shall procure and maintain or cause to be procured and maintained public liability insurance covering claims against the City (including its city council, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the City's operations, including any use of the System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations in California similar to the System; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

(c) The provisions of this subsection (c) are subject to the requirements of the Prior Agreements with respect to the application of Net Proceeds consisting of insurance payments. If all or any part of the System shall be damaged or destroyed, the Net Proceeds realized by the City as a result thereof shall be deposited by the City with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the City to the cost of acquiring and constructing repairs, replacements, additions, betterments, extensions or improvements to the System if (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such damage or destruction, (ii) a general description of the repairs, replacements, additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of the System Revenues to be derived after the completions of such repairs, replacements, additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that the System Revenues after such repair, replacement, addition, betterment, extension or improvement of the System will sufficiently offset on a timely basis the loss of System Revenues resulting from such damage or destruction so that the ability of the City to pay all Parity Debt when due will not be substantially impaired, and such Certificate of the City shall be final and conclusive, and any balance of such proceeds not required by the City for such purpose shall be deposited in the System Revenue Fund and applied as provided in Section 5.2; *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments and Parity Obligation Payments as they shall become due ratably without any discrimination or preference; *provided further* that the foregoing procedures

for the application of Net Proceeds consisting of insurance payments shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such damage or destruction has had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Parity Debt, and a Certificate of the City to such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in the System Revenue Fund, to be applied as provided in Section 5.2.

Section 6.7. Eminent Domain Proceeds. The provision of this Section are subject to the requirements of the Prior Agreements with respect to the application of the Net Proceeds consisting of awards under eminent domain proceedings. If all or any part of the System shall be taken by eminent domain proceedings, the Net Proceeds realized by the City therefrom shall be deposited by the City with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the City to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such eminent domain proceedings so that the ability of the City to pay all Parity Debt when due will not be substantially impaired, and such Certificate of the City shall be final and conclusive, and any balance of such proceeds not required by the City for such purpose shall be deposited in the System Revenue Fund and applied as provided in Section 5.2, *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments and Parity Obligation Payments as they shall become due ratably without any discrimination or preference; *provided further* that the foregoing procedures for the application of Net Proceeds consisting of awards under eminent domain proceedings shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Parity Debt, and a Certificate of the City to such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in the System Revenue Fund, to be applied as provided in Section 5.2.

Section 6.8. Amounts of Rates, Fees and Charges.

(a) The City will, at all times until all Installment Payments have been fully paid or provision has been made therefor in accordance with Section 9.1, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

- (i) All current Operation and Maintenance Costs.

(ii) The Installment Payments, all other Parity Obligation Payments and all payments on Subordinate Obligations as they become due and payable.

(iii) All payments required for compliance with the terms of the Trust Agreement and hereof, including restoration of the Reserve Fund to an amount equal to the Reserve Fund Requirement.

(iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the System Revenues.

(b) In addition to the requirements of the foregoing subsection (a) of this Section, the City will, at all times until all Installment Payments have been fully paid or provision has been made therefor in accordance with Section 9.1, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 110% per cent of the Annual Debt Service in such Fiscal Year; *provided*, an adjustment shall be made to the amount of System Net Revenues as provided in Section 5.4.

The City may make or permit to be made adjustments from time to time in such rates, fees and charges and may make or permit to be made such classification thereof as it deems necessary, but shall not reduce or permit to be reduced such rates, fees and charges below those then in effect unless the System Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this Section.

Section 6.9. Enforcement of and Performance Under Contracts. The City shall enforce all material provisions of any contracts to which it is a party, an assignee, successor in interest to a party or third-party beneficiary, in any case where such contracts provide for material payments or services to be rendered to the System. Further, the City will comply with, keep, observe and perform all material agreements, conditions, covenants and terms, express or implied, required to be performed by it, contained in all contracts affecting or involving the System, to the extent that the City is a party thereto.

Section 6.10. Collection of Charges, Fees and Rates. The City will have in effect at all times rules and regulations requiring each user of the System to pay the applicable charges, fees and rates and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City will enforce the collection procedures contained in such rules and regulations.

Section 6.11. No Free Service. The City will not permit any part of the System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the State of California and any city, county, public agency, political subdivision, public corporation or agency or any thereof), unless otherwise required by law or existing written agreements.

Section 6.12. Prompt Acquisition and Construction of the Project. From the moneys on deposit in the Improvement Fund and other moneys available therefor in the System Revenue Fund, the City will acquire and construct the Project with all practicable dispatch, and such

acquisition and construction will be made in an expeditious manner and in conformity with the law so as to complete the same as soon as possible.

Section 6.13. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the System or upon the System Revenues or any part thereof, or upon any funds held by the Trustee, or which might impair the security of the Installment Payments; *provided*, that nothing herein contained shall require the City to make any such payments so long as the City in good faith shall contest the validity of any such claims and such nonpayment will not materially adversely affect the City's ability to perform its obligations hereunder.

Section 6.14. Books of Record and Accounts; Financial Statements. The City will keep proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the System, the System Revenue Fund and all other accounts or funds established pursuant hereto, and upon request will provide information concerning such books of record and accounts to the Trustee.

The City will prepare annually, not later than one hundred eighty (180) days after the close of each Fiscal Year, until all Installment Payments have been fully paid or provision has been made therefor in accordance with Section 9.1, an audited financial statement of the City relating to the System Revenue Fund and all other accounts or funds established pursuant hereto for the preceding Fiscal Year prepared by an Independent Certified Public Accountant, showing the balances in each such account or fund as of the beginning of such Fiscal Year and all deposits in and withdrawals from each such account or fund during such Fiscal Year and the balances in each such account or fund as of the end of such Fiscal Year, which audited financial statement shall include a statement as to the manner and extent to which the City has complied with the provisions hereof as it relates to such accounts and funds. The City will furnish a copy of such audited financial statement to the Trustee, the Certificate Insurer and to the Information Services upon request, and will furnish such reasonable number of copies thereof to investment bankers, security dealers and others interested in the Certificates.

Section 6.15. Payment of Taxes and Other Charges and Compliance with Governmental Regulations. The City will pay and discharge all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the System or any properties owned by the City, or upon the System Revenues, when the same shall become due; *provided*, that nothing herein contained shall require the City to make any such payments so long as the City in good faith shall contest the validity of any such taxes, service charges, assessments or other governmental charges and such nonpayment will not materially adversely affect the City's ability to perform its obligations hereunder.

The City will duly comply with all applicable state, federal and local statutes and all valid regulations and requirements of any governmental authority relative to the operation of the System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith and such noncompliance will not materially adversely affect the City's ability to perform its obligations hereunder.

Section 6.16. Tax Covenants and Matters.

(a) General. The City hereby covenants, for the benefit of the Corporation and the owners and beneficial owners of the Certificates that, notwithstanding any other provisions of this Agreement, they shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest evidenced and represented by the Certificates under Section 103 of the Code. The City shall not, directly or indirectly, use or permit the use of proceeds of the Certificates or any of the property financed with proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code) in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Certificates.

(b) Arbitrage. The City shall not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of any property financed thereby, or other funds of the City, or take or omit to take any action, that would cause the Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

(c) Federal Guarantee. The City shall not make any use of the proceeds of the Certificates or any other funds of the City, or take or omit to take any other action, that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) Compliance with Tax Certificate. In furtherance of the foregoing tax covenants of this Section, the City covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Certificates.

Section 6.17. Rebate Fund.

(a) Establishment. Pursuant to the Trust Agreement, the Trustee will hold in the Rebate Fund any amounts required to satisfy the requirement to make rebate payments to the United States pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder. Such amounts shall be governed by this Section, Section 6.16, Section 3.07 of the Trust Agreement and by the Tax Certificate, unless and to the extent that the City delivers to the Trustee a Favorable Opinion of Bond Counsel with respect to any departure from such requirements. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury.

(i) Computation of Rebate Amount. Within 55 days of the end of each fifth Bond Year (as such term is defined in the Tax Certificate), and each Bond Year in which funds remain on deposit in the Improvement Fund relating to the City, the City shall calculate or cause to be calculated the amount of “rebate amount,” in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking

into account any applicable exceptions with respect to the computation of the “rebate amount,” described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(A)(ii) or Section 148(f)(4)(B) of the Code, the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations, the exception for certain “small governmental issuers” as set forth in Section 148(f)(4)(D) of the Code, and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made)), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations.

(ii) Transfer of Moneys. Within 55 days of the end of each such fifth Bond Year, the City shall deposit to the Rebate Fund from System Revenues as an Operation and Maintenance Cost, if and to the extent required so that the balance in the Rebate Fund shall equal the “rebate amount” so calculated in accordance with this Section.

(b) Deficiencies in the Rebate Fund. In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City shall calculate or cause to be calculated the amount of such deficiency and deposit from System Revenues as an Operation and Maintenance Cost, an amount equal to such deficiency prior to the time such payment is due.

(c) Record Keeping. The City shall retain records of all determinations made hereunder until six years after payment in full of the Installment Payments.

(d) Survival of Defeasance. Notwithstanding anything in this Agreement to the contrary, the obligation to comply with the requirements of this Section shall survive the payment in full of the Installment Payments or provision for such payment in accordance with Section 9.1.

Section 6.18. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Agreement Event of Default; however, any Participating Underwriter or any Owner or beneficial owner of the Certificates may take such actions as described under the Continuing Disclosure Certificate to cause the City to comply with its obligations under this Section.

Section 6.19. Further Assurances. The City will adopt, make, execute and deliver any and all such further documents, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof.

Section 6.20. Reimbursement of Certificate Insurer and Other Provisions Relating to the Certificate Insurer.

(a) The City agrees to pay or reimburse the Certificate Insurer any and all charges, fees, costs and expenses which the Certificate Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in

respect of this Agreement or the Trust Agreement, (ii) the pursuit of any remedies under the Trust Agreement or this Agreement or otherwise afforded by law or equity, (iii) the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it or (iv) any litigation or other dispute in connection with the Trust Agreement or this Agreement or the transactions contemplated thereby, other than amounts resulting from the failure of the Certificate Insurer to honor its obligations under Certificate Insurance Policy; *provided* that the foregoing obligation shall be strictly limited to defaults with respect to the City. The Certificate Insurer shall have the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Trust Agreement or this Agreement.

(b) The City will provide the Certificate Insurer with its annual budget within 30 days of its adoption and its annual audited financial statements within 210 days after the end of the City's Fiscal Year.

(c) The City shall not enter into an interest rate swap agreement with respect to payment obligations payable from System Revenues without the prior consent of the Certificate Insurer.

ARTICLE VII

PREPAYMENT OF INSTALLMENT PAYMENTS

Section 7.1. Prepayment. The City shall have the right at any time or from time to time from any available funds to prepay all or any part of the Installment Payments; provided that any prepayment of a principal component of the Installment Payments to be applied to the prepayment or defeasance of Certificates shall be in an amount sufficient to provide for such prepayment or defeasance of Certificates in Authorized Denominations and otherwise in accordance with the provisions of the Trust Agreement. The Corporation shall accept such prepayments when the same are tendered by the City. All prepayments of Installment Payments made by the City pursuant to this Section shall be deposited upon receipt with the Trustee in the appropriate account in the Debt Service Fund specified by the City. All amounts in the Prepayment Account shall be applied to the payment, prepayment or provision for the payment, of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement as directed in a Certificate of the City.

With respect to prepayments of Installment Payments pursuant to this Section, the City shall determine which Installment Payments are to be prepaid, including the principal component of the Installment Payment due on each Installment Payment Date to be paid or prepaid with such prepayments, and, subject to the provisions of this Section, the date on which each such prepayment is to be made. Before making any prepayment pursuant to this Section, the City shall give written notice to the Corporation specifying the date on which the prepayment will be paid, which date shall be not less than fifty (50) days from the date such notice is given; provided, that notwithstanding any such prepayment, the City shall not be relieved of its obligations hereunder, including specifically its obligations under Article IV, until all Installment Payments shall have been fully paid or provision for payment thereof shall have been made pursuant to Section 9.1.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

Section 8.1. Events of Default and Acceleration of Maturities. There shall be an Agreement Event of Default if one or more of the following shall happen, that is to say --

- (1) if default shall be made by the City in the due and punctual payment of any Installment Payment or any other Parity Debt when and as the same shall become due and payable;
- (2) if default shall be made by the City in the performance of any of the other agreements or covenants required herein to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Corporation or the Trustee; *provided* that such default shall not constitute an Agreement Event of Default hereunder if the City shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time;
- (3) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or
- (4) if payment of the principal of any Parity Debt is accelerated in accordance with its terms;

then, and in each and every such case during the continuance of an Agreement Event of Default specified in clauses (3) and (4) above, the Corporation shall, and for any other Agreement Event of Default the Corporation may (and at the direction of the Certificate Insurer, shall), by notice in writing to the City, declare all unpaid principal components of the Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable; *provided* that any such declaration of acceleration shall be subject to the prior written consent of the Certificate Insurer. This subsection however, is subject to the condition that if, at any time after all unpaid principal components of the Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Corporation a sum sufficient to pay the unpaid principal components and interest components of the Installment Payments then due and payable (other than the principal components of the Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration), with interest on

such overdue Installment Payments at the highest rate applicable to the remaining unpaid principal component of the Installment Payments, and the reasonable expenses of the Corporation, the Trustee and the Certificate Insurer shall have been paid or provision deemed by the Corporation, the Trustee or the Certificate Insurer, as applicable, to be adequate shall have been made therefor, and any and all other Agreement Events of Default shall have been made good or cured to the satisfaction of the Corporation and the Certificate Insurer or provision deemed by the Corporation and the Certificate Insurer to be adequate shall have been made therefor, then and in every such case the Corporation and the Certificate Insurer, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 8.2. Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in Section 8.1, all System Revenues thereafter received shall be applied in the following order (subject to the applicable provisions of Prior Agreements) -

First, to the payment, without preference or priority, and in the event of any insufficiency of such System Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Corporation and Trustee and the trustee for any other Parity Debt, if any, in carrying out the provisions of this article, including reasonable compensation to accountants and counsel and similar costs with respect to Parity Debt;

Second, to the payment of Operation and Maintenance Costs;

Third, to the payment of all unpaid principal components of the Installment Payments and the unpaid principal amount of all other Parity Debt and the accrued interest thereon, with interest on the overdue Installment Payments at the highest rate of interest applicable to the unpaid principal components of the Installment Payments and, with respect to such other Parity Debt, as required by the terms of such other Parity Debt; and

Fourth, to the Certificate Insurer, any amounts owed pursuant to Sections 5.2(b), 6.20 and 8.1. and to amounts due to any provider of credit enhancement for other Parity Debt.

Section 8.3. Other Remedies of the Corporation. In addition to remedies elsewhere provided in this Agreement, upon the continuance of an Agreement Event of Default, the Corporation shall have the right with the written consent of the Certificate Insurer and shall at the direction of the Certificate Insurer:

(a) by mandamus or other action or proceeding or suit at law or in equity, to enforce its rights against the City or any director, officer or employee thereof, and to compel the City or any such director, officer or employee to perform and carry out its or his duties under applicable law and the agreements and covenants required to be performed by it or him contained herein;

(b) by suit in equity, to enjoin any acts or things which are unlawful or violate the rights of the Corporation;

(c) by suit in equity, to require the City and its directors, officers and employees to account as the trustee of an express trust; or

(d) by mandamus or other action or proceeding or suit at law or in equity, to pursue any other remedy now or hereafter existing in law or in equity or by statute or otherwise to enforce the performance of the City's obligations hereunder and to otherwise protect the Corporation's rights and interests in connection with this Agreement.

Notwithstanding anything contained herein, the Corporation shall have no security interest in or mortgage on the Project, the System or other facilities of the City or any other real property of the City and no default hereunder shall result in the loss of the Project, the System or other facilities of the City or any other real property of the City.

Section 8.4. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Corporation at the respective due dates from the System Net Revenues, the System Revenue Fund and the other funds pledged for such payment, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by applicable law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation, the City and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Section 8.5. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

Section 8.6. Notices. Notwithstanding any other provision hereof, the Trustee shall immediately notify the Certificate Insurer if at any time there are insufficient moneys to make any Installment Payments as required and immediately upon the occurrence of any Agreement Event of Default hereunder.

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.1. Discharge of Installment Payments. The principal component of any Installment Payment, and the interest component of the Installment Payments on such principal

component, shall be deemed paid and all obligations of the City with respect thereto shall cease and terminate (except for payment from deposited funds and Defeasance Securities as provided in Article IX of the Trust Agreement) when the Certificates evidencing an ownership interest in such principal component of the Installment Payments and the interest thereon, have been paid or deemed paid in accordance with the applicable provisions of Article IX of the Trust Agreement.

Section 9.2. Accounting and Discharge Instruments. After the payment, or provision for the payment as provided in Section 9.1, of all Installment Payments and prepayment premiums, if any, and payment in full of all fees and expenses of the Corporation and the Trustee, the Corporation, upon request of the City, shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and the Corporation shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of this Agreement.

ARTICLE X

MISCELLANEOUS

Section 10.1. Liability of City Limited to System Revenues. Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than the System Revenues, the System Revenue Fund and the other funds provided herein for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the Installment Payments and any other payments hereunder is a special obligation of the City payable solely from the System Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Section 10.2. Successor Is Deemed Included in all References to Predecessor. Whenever either the City or the Corporation is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the City or the Corporation, and all assignees of the City or the Corporation permitted hereunder. All agreements and covenants required hereby to be performed by or on behalf of the City or the Corporation shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 10.3. Waiver of Personal Liability. No director, officer or employee of the City shall be individually or personally liable for the payment of the Installment Payments or be subject to any personal liability by reason of the execution of this Agreement or the execution and delivery of the Certificates.

Section 10.4. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect

hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby”, “herein,” “hereof,” “hereto,” “herewith” and other words of similar import refer to this Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

Section 10.5. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the City or the Corporation shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The City and the Corporation hereby declare that they would have executed this Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof, irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 10.6. Assignment. The City may not assign this Agreement or any of its obligations hereunder without the prior consent of the Corporation and any such assignment without such consent shall be null and void. The City acknowledges and agrees that the Installment Payments, and certain of the Corporation’s rights under this Agreement will be assigned to the Trustee and pledged under the Trust Agreement to the payment of the Certificates. The City consents to such assignment.

Section 10.7. California Law. THE INSTALLMENT PURCHASE AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA WITH RESPECT TO CONTRACTS ENTERED INTO AND TO BE PERFORMED IN CALIFORNIA..

Section 10.8. Effective Date. This Agreement shall become effective upon its execution and delivery, and shall terminate when the provisions of Section 9.2 have been satisfied.

Section 10.9. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 10.10. Indemnification of Corporation. To the fullest extent permitted by law, the City agrees to indemnify, hold harmless and defend the Corporation and the Trustee, and each of their respective officers, governing board members, directors, officials, employees, attorneys and agents (collectively, the “Indemnified Parties”), against any and all losses, damages, claims, actions, liabilities, costs and expenses of any conceivable nature, kind or character (including, without limitation, reasonable attorneys’ fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) to which the Indemnified Parties, or any of them, may become subject under federal or state securities laws or any other statutory law or at common law or otherwise arising out of or based upon or in any way relating to:

(i) the Trust Agreement, this Agreement or the execution or amendment thereof or in connection with transactions contemplated thereby, including the execution and delivery of the Certificates;

(ii) any act or omission of the City or any of its agents, contractors, servants, employees or licensees in connection with this Agreement or the Project, the operation of the Project, or the condition, environmental or otherwise, occupancy, use, possession, conduct or management of work done in or about, or from the planning, design, acquisition, construction or development of, the Project or any part thereof;

(iii) any lien or charge upon payments by the City to the Corporation and the Trustee hereunder, or any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges imposed on the Corporation or the Trustee in respect of any portion of the Project;

(iv) any violation of any environmental law, rule or regulation with respect to, or the release of any toxic substance from, the Project or any part thereof;

(v) the defeasance and/or redemption, in whole or in part, of the Certificates;

(vi) any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact furnished in writing by the City contained in any offering statement or document for the Certificates or any of the documents relating to the Certificates to which the City is a party, or any omission or alleged omission from any offering statement or document for the Certificates of any material fact necessary to be stated therein in order to make the statements made therein by the City, in the light of the circumstances under which they were made, not misleading;

(vii) the Trustee's acceptance or administration of the trust of the Trust Agreement, or the exercise or performance of any of its powers or duties thereunder or under any of the documents relating to the Certificates to which it is a party; except (a) in the case of the foregoing indemnification of the Trustee or any of their respective officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the negligence or willful misconduct of such Indemnified Party; or (b) in the case of the foregoing indemnification of the Corporation or any of its officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the willful misconduct of such Indemnified Party. In the event that any action or proceeding is brought against any Indemnified Party with respect to which indemnity may be sought hereunder, the City, upon written notice from the Indemnified Party, shall assume the investigation and defense thereof, including the employment of counsel selected by the Indemnified Party, and shall assume the payment of all expenses related thereto, with full power to litigate, compromise or settle the same in its sole discretion; *provided* that the Indemnified Party shall have the right to review and approve or disapprove any such compromise or settlement. Each Indemnified Party shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense thereof, and the City shall pay the reasonable

fees and expenses of such separate counsel; *provided, however*, that such Indemnified Party may only employ separate counsel at the expense of the City if in its judgment a conflict of interest exists by reason of common representation or if all parties commonly represented do not agree as to the action (or inaction) of counsel.

The rights of any persons to indemnify hereunder and rights to payment of fees and reimbursement of expenses pursuant to Section 4.2 shall survive the final payment or defeasance of the Certificates and in the case of the Trustee any resignation or removal. The provisions of this Section shall survive the termination of this Agreement.

Section 10.11. Amendments. This Agreement may only be amended in accordance with the terms of Trust Agreement. Any Rating Agency rating the Certificates shall receive notice of each amendment to this Agreement and a copy thereof at least 15 days in advance of its execution. The Certificate Insurer shall be provided with a full transcript of all proceedings relating to any amendment or supplement hereto.

IN WITNESS WHEREOF, the parties hereto have executed and attested this Agreement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF LODI

By: _____
City Manager

Attest:

City Clerk

APPROVED:

Interim City Attorney

LODI PUBLIC IMPROVEMENT
CORPORATION

By: _____
President

Attest:

Secretary of the Corporation

APPROVED:

Attorney for the Corporation

EXHIBIT A

DESCRIPTION OF THE PROJECT

The Project consists of the following additions, betterments, extensions, replacements and improvements to the System:

- Equipment for Phase 2 of the upgrade of the White Slough Water Pollution Control Facility, including tertiary filters, UV disinfection equipment and aeration panels.
- Installation of the above equipment along with associated equipment, structures and appurtenances.
- Land acquired in connection with improvements and buffer zones for the White Slough Water Pollution Control Facility.
- Equipment and other improvements associated with Phase 3 of the White Slough Water Pollution Control Facility Improvement Project.
- Improvements to the wastewater collection system and support facilities.
- Engineering, environmental, legal and other expenses associated with the above improvements.

The Project shall also include such other betterments, extensions, replacements and improvements to the System as shall be specified in a Certificate of the City delivered to the Trustee accompanied by a Favorable Opinion of Bond Counsel with respect to the payment of the Costs of such additional betterments, extensions, replacements and improvements with the proceeds of the Certificates.

EXHIBIT B

PRINCIPAL COMPONENTS OF INSTALLMENT PAYMENTS

The principal components of the Installment Payments shall consist of the sum of the following amounts, with each said principal component being payable on the 15th day of the month preceding the date for such principal component set forth below and with each such principal component bearing interest at the interest rate per annum set forth below:

Due Date

Principal Component

Interest Rate

EXHIBIT C

SCHEDULE OF INSTALLMENT PAYMENTS AS OF DELIVERY DATE

As of the Delivery Date, the Installment Payments consist of the following amounts of principal components and interest components and are payable on Installment Payment Dates which are the 15th day of the month preceding each of the dates set forth below:

<u>Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total</u>
-------------	----------------------------	---------------------------	--------------

\$ _____
Wastewater System Revenue Certificates of Participation, 2004 Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA

CERTIFICATE PURCHASE CONTRACT

May __, 2004

City of Lodi
Lodi, California

Ladies and Gentlemen:

The undersigned, First Albany Capital Inc., as underwriter (the “Underwriter”), offers to enter into this Certificate Purchase Contract (the “Purchase Contract”) with the City of Lodi, California (the “City”) which, upon the City’s acceptance of this offer, will be binding upon the City and upon the Underwriter. This offer is made subject to the City’s written acceptance hereof on or before 11:00 p.m., California time, on the date hereof or such other time as the parties hereto mutually agree upon and, if not so accepted, will be subject to withdrawal by the Underwriter upon written notice (by telegraph or otherwise) delivered to the City at any time prior to the acceptance hereof by the City. Capitalized terms used herein not otherwise defined should have meanings ascribed to such terms in the hereinafter referenced Trust Agreement or the Installment Purchase Agreement.

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase and the City hereby agrees to cause the sale and delivery to the Underwriter of, all (but not less than all) of the \$_____ aggregate principal amount of City of Lodi, California Wastewater System Revenue Certificates of Participation, 2004 Series A (the “2004 Certificates”). The 2004 Certificates evidence the proportionate interests of the owners thereof in certain installment payments (the “Installment Payments”) to be made by the City under the terms of an Installment Purchase Agreement, dated as of May 1, 2004 (the “Installment Purchase Agreement”), by and between the Lodi Public Improvement Corporation (the “Corporation”) and the City. The 2004 Certificates shall be executed and delivered pursuant to a Trust Agreement,

dated as of May 1, 2004 (the "Trust Agreement"), by and between the Corporation and Union Bank of California, N.A., as trustee (the "Trustee").

The purchase price for the 2004 Certificates shall be \$_____ (representing the \$_____ aggregate principal amount of the 2004 Certificates plus \$_____ of original issue premium and less \$_____ of Underwriter's discount).

The 2004 Certificates shall be dated the date of delivery thereof and shall represent interest and mature on the dates and in the amounts shown on Exhibit A hereto. Interest represented by the 2004 Certificates shall be payable on October 1, 2004 and semi-annually thereafter on April 1 and October 1 of each year. The 2004 Certificates shall be payable and shall be subject to prepayment prior to maturity as provided in the Trust Agreement.

The 2004 Certificates are being executed and delivered to provide funds (i) to finance the costs of certain improvements to the wastewater collection, treatment and disposal system (the "System") of the City, [(ii) to fund a reserve fund for the 2004 Certificates,] and (iii) to pay costs of delivery of the 2004 Certificates.

[Payment of the principal and interest represented by the 2004 Certificates when due (not including acceleration or prepayment, except scheduled mandatory sinking fund prepayment) will be insured under a municipal bond insurance policy (the "Policy") to be issued by _____ (the "Insurer") simultaneously with the delivery of the 2004 Certificates. In addition, the Insurer will issue a surety bond (the "Reserve Policy") to fund the Reserve Fund for the 2004 Certificates simultaneously with the delivery of the 2004 Certificates.]

The City will undertake pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events, if material. As description of this undertaking is set forth in Preliminary Official Statement (as hereinafter defined) and will also be set forth in the final Official Statement (as hereinafter defined).

2. Closing. At 8:00 a.m., California time, on May ___, 2004 or on such other date as may be mutually agreed upon by the City and the Underwriter (the "Closing Date"), the City, subject to the terms and conditions hereof, will cause the sale and delivery of the 2004 Certificates to the Underwriter, duly executed, together with the other documents hereinafter mentioned, and, subject to the terms and conditions hereof, the Underwriter will accept such delivery and pay the purchase price of the 2004 Certificates as set forth in Section 1 hereof in immediately available funds (such delivery and payment being herein referred to as the "Closing"). Sale, delivery and payment as aforesaid shall be made at the offices of Orrick, Herrington & Sutcliffe LLP, 777 South Figueroa Street, Suite 3200, Los Angeles, California 90017 or at such other place as shall have been mutually agreed upon by the City and the Underwriter. The 2004 Certificates shall be delivered to the Underwriter through the book-entry system of The Depository Trust Company.

3. Offering. It shall be a condition to the City's obligation to cause the sale and delivery of the 2004 Certificates to the Underwriter and to the Underwriter's obligation to purchase, accept delivery of and pay for the 2004 Certificates that the entire \$_____

aggregate principal amount of the 2004 Certificates shall be executed, sold and delivered by the Trustee and purchased, accepted and paid for by the Underwriter at the Closing. The Underwriter agrees to make a bona fide public offering of all of the 2004 Certificates at not in excess of the initial public offering prices set forth on the inside cover page of the Official Statement. The Underwriter reserves the right to change, subsequent to the initial public offering, such initial offering prices as the Underwriter shall deem necessary in connection with the marketing of the 2004 Certificates.

4. Use and Preparation of Documents. The City ratifies, confirms and approves the use by the Underwriter prior to the date hereof of the Preliminary Official Statement of the City dated May __, 2004 relating to the 2004 Certificates (which, together with all appendices thereto, is referred to herein as the "Preliminary Official Statement"). The City has deemed final the Preliminary Official Statement as of the date thereof for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12. The City hereby acknowledges that the Preliminary Official Statement has been made available to investors on the Internet at http://www._____. The City agrees to deliver to the Underwriter, within seven (7) business days of the date hereof, copies of the final official statement dated May __, 2004 (including all information permitted to be omitted by Rule 15c2-12 and any amendments or supplements to such official statement as have been approved by the City and the Underwriter) (the "Official Statement") in sufficient quantity to enable the Underwriter to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The City hereby approves of the use and distribution by the Underwriter of the Official Statement in connection with the offer and sale of the 2004 Certificates. At the time of or prior to the Closing Date, the Underwriter shall file a copy of the Official Statement with the Municipal Securities Rulemaking Board and with a nationally recognized municipal securities information repository. The City hereby authorizes the use by the Underwriter of the Trust Agreement, the Installment Purchase Agreement and the Continuing Disclosure Agreement in connection with the public offering and sale of the 2004 Certificates.

5. Representations, Warranties and Agreements. The City hereby represents, warrants and agrees as follows:

(a) The City has and on the Closing Date will have full legal right, power and authority to (i) enter into this Purchase Contract, the Installment Purchase Agreement and the Continuing Disclosure Agreement, (ii) cause the sale, execution and delivery of the 2004 Certificates to the Underwriter as provided herein, (iii) carry out and consummate the transactions contemplated by this Purchase Contract, the Installment Purchase Agreement, the Continuing Disclosure Agreement and the Official Statement, and (iv) execute and deliver the Official Statement;

(b) By all necessary official action of the City prior to or concurrently with the acceptance hereof, the City has duly authorized and approved the preparation and distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement and has duly authorized and approved the execution, delivery and performance by the City of the obligations in connection with the execution and delivery of the 2004 Certificates on its part contained in this Purchase Contract, the Installment Purchase Agreement and the

Continuing Disclosure Agreement and the consummation by the City of all other transactions contemplated by this Purchase Contract, the Installment Purchase Agreement and the Continuing Disclosure Agreement on its part in connection with the execution and delivery of the 2004 Certificates; the City has complied or will at the Closing be in compliance in all material respects with the obligations on its part in connection with the execution and delivery of the 2004 Certificates contained in this Purchase Contract, the Installment Purchase Agreement and the Continuing Disclosure Agreement;

(c) Except as disclosed in the Official Statement, the City is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement (including, without limitation, the Installment Purchase Agreement) or other instrument to which the City is a party or to which the City or any of its property or assets is otherwise subject, and, to the City's knowledge, no event has occurred and is continuing that, with the passage of time or the giving of notice or both, would constitute such a default or event of default under any such instrument;

(d) The execution and delivery of the 2004 Certificates, this Purchase Contract, the Installment Purchase Agreement and the Continuing Disclosure Agreement and compliance with the provisions on the City's part contained therein will not conflict with or constitute a breach of or a default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or to which the City or any of its property or assets otherwise is subject, nor will any such execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City or under the terms of any such constitutional provision, law, regulation or instrument, except as provided in the Installment Purchase Agreement;

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter that are required for the due authorization by or that would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations in connection with the execution and delivery of the 2004 Certificates under the Trust Agreement have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the 2004 Certificates; and, except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter that are required for the due authorization by or that would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations under the Installment Purchase Agreement, the Continuing Disclosure Agreement or this Purchase Contract have been duly obtained;

(f) Between the date of the Official Statement and the date of the Closing, the City has not and will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money or incur any material liabilities, direct or contingent, payable from System Net Revenues, nor does the City reasonably anticipate that

there will there be any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the System;

(g) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best knowledge of the City, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the 2004 Certificates or the collection of the System Net Revenues to be used to pay the Installment Payments, or the pledge of and lien on the System Net Revenues or contesting or affecting, as to the City, the validity or enforceability of the 2004 Certificates, this Purchase Contract, the Installment Purchase Agreement, the Continuing Disclosure Agreement or contesting the tax-exempt status of interest represented by the 2004 Certificates, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the City or any authority for the execution and delivery of the 2004 Certificates, or in any way contesting or challenging the consummation of the transactions contemplated hereby, or, except as disclosed in the Official Statement, that might result in a material adverse change in the financial condition of the City or that might materially adversely affect the System Net Revenues; nor, except as disclosed in the Official Statement, is there any known basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the City of the Installment Purchase Agreement, the Continuing Disclosure Agreement or this Purchase Contract or the execution by the Trustee of the 2004 Certificates;

(h) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the 2004 Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the 2004 Certificates for investment under the laws of such states and other jurisdictions and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the 2004 Certificates; provided, however, that the City shall not be required to qualify to do business or consent to service of process in connection with any such qualification or determination in any jurisdiction;

(i) As of the date thereof, the Preliminary Official Statement did not, except as revised by the Official Statement and any supplement or amendment prepared pursuant to paragraph (k) below, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect;

(j) As of the date thereof and at all times subsequent thereto, to and including the date that is 25 days following the End of the Underwriting Period (as such term is hereinafter defined) for the 2004 Certificates, the Official Statement did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(k) If, between the date of the Official Statement and the date that is 25 days after the End of the Underwriting Period for the 2004 Certificates, an event occurs that would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the City will notify the Underwriter and the City, and, if, in the opinion of the Underwriter or its counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will cooperate in the preparation of an amendment or supplement to the Official Statement in a form and manner approved by the Underwriter and shall pay all expenses thereby incurred. For the purposes of this subsection, between the date hereof and the date that is 25 days after the End of the Underwriting Period for the 2004 Certificates, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(l) If the information contained in the Official Statement is amended or supplemented pursuant to paragraph (j) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date that is 25 days after the End of the Underwriting Period for the 2004 Certificates, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading;

(m) To the extent permitted by law, after the Closing, the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter reasonably shall object in writing or that shall be disapproved by counsel for the Underwriter;

(n) As used herein and for the purposes of the foregoing, the term "End of the Underwriting Period" for the 2004 Certificates shall mean the earlier of (i) the Closing Date, unless the City shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date, (ii) the date on which the End of the Underwriting Period for the 2004 Certificates has occurred under Rule 15c2-12, provided, however, that the City may treat as the End of the Underwriting Period for the 2004 Certificates the date specified as such in a notice from the Underwriter stating the date that is the End of the Underwriting Period, which date in no event shall be less than 25 days after the Closing Date; and

(o) The City will apply the proceeds from the sale of the 2004 Certificates for the purposes specified in the Official Statement.

6. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the City contained herein and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the City of its obligations hereunder, both as of the date hereof and as of the Closing Date. Accordingly, the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the 2004

Certificates shall be conditioned, at the option of the Underwriter, upon the performance by the City of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing and also shall be subject to the following additional conditions:

(a) The Underwriter has received copies of the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Underwriter) in such reasonable quantity as the Underwriter shall have requested. Prior to or simultaneously with the execution of this Purchase Contract, the Underwriter shall have received a Certificate of the City, dated the date of the Preliminary Official Statement, addressed to the Underwriter, consenting to the posting of the Preliminary Official Statement on the on the Internet at the http://www._____ website, in form and substance acceptable to the Underwriter;

(b) The representations and warranties of the City contained herein shall be true, complete and correct on and as of the date of the Official Statement and on and as of the Closing Date, as if made on the Closing Date, and the statements of the officers and other officials of the City, the Corporation and the Trustee made in any certificate or other document furnished pursuant to the provisions hereof are accurate;

(c) At the time of the Closing, the Trust Agreement, the Installment Purchase Agreement and the Continuing Disclosure Agreement shall have been duly authorized, executed and delivered by the respective parties thereto, and the Official Statement shall have been duly authorized, executed and delivered by the City, all in substantially the forms heretofore submitted to the Underwriter, with only such changes as shall have been agreed to in writing by the Underwriter, and shall be in full force and effect; and there shall be in full force and effect such resolution or resolutions of the City Council of the City and the Board of Directors of the Corporation as, in the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California (“Special Counsel”), and Sidley Austin Brown & Wood LLP, Los Angeles, California, counsel to the Underwriter (“Underwriter’s Counsel”), shall be necessary or appropriate in connection with the transactions contemplated hereby;

(d) Between the date hereof and the Closing Date, the market price or marketability, at the initial offering price set forth in the Official Statement, of the 2004 Certificates shall not have been materially adversely affected in the reasonable judgment of the Underwriter (evidenced by a written notice to the City and the Trustee terminating the obligation of the Underwriter to accept delivery of and make any payment for the 2004 Certificates) by reason of any of the following:

(1) an amendment to the Constitution of the United States or the State of California shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the legislature of any state having jurisdiction of the subject matter, or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the

United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by either such Committee, by any member thereof or presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State of California or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made, or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State of California authority with respect to federal or State of California taxation upon revenues or other income of the general character to be derived by the City or upon interest received with respect to obligations of the general character of the 2004 Certificates that, in the reasonable judgment of the Underwriter, directly or indirectly may have the purpose or effect of affecting the tax status of the City, its property or income, its securities (including the 2004 Certificates) or the interest with respect thereto, or any tax exemption granted or authorized by State of California legislation or materially and adversely affecting the market for the 2004 Certificates or the market price generally of obligations of the general character of the 2004 Certificates;

(2) legislation enacted, introduced in the Congress or recommended for passage by the President of the United States, or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made by or on behalf of the Securities and Exchange Commission or by any other governmental agency having jurisdiction of the subject matter to the effect that obligations of the general character of the 2004 Certificates, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Trust Agreement is not exempt from qualification under the Trust Indenture Act of 1939, as amended;

(3) the declaration of war or escalation in major military hostilities by the United States or the occurrence of any other national emergency or calamity relating to the effective operation of the government of or the financial community in the United States;

(4) the declaration of a general banking moratorium by federal, New York or California authorities or the general suspension of trading on any national securities exchange;

(5) the imposition by the New York Stock Exchange or other national securities exchange or any governmental authority of any material restrictions not now in force with respect to the 2004 Certificates or obligations of the general character of the 2004 Certificates or securities generally or the material increase of any such restrictions

now in force, including those relating to the extension of credit by or the charge to the net capital requirements of, the Underwriter;

(6) an order, decree or injunction of any court of competent jurisdiction or order, ruling, regulation or official statement by the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter issued or made to the effect that the issuance, offering or sale of obligations of the general character of the 2004 Certificates or the execution, offering or sale of the 2004 Certificates, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(7) the withdrawal or downgrading of any rating of the 2004 Certificates by a national rating agency; or

(8) any event occurring, or information becoming known that, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(e) At or prior to the Closing Date, the Underwriter shall have received the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) The Official Statement and each supplement or amendment, if any, thereto executed on behalf of the City by a duly authorized officer of the City;

(2) Copies of the Trust Agreement, the Installment Purchase Agreement and the Continuing Disclosure Agreement, each duly executed and delivered by the respective parties thereto;

(3) The approving opinion of Special Counsel, dated the Closing Date and addressed to the City, in substantially the form attached to the Official Statement as Appendix F thereto;

(4) The supplemental opinion of Special Counsel, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit B;

(5) An opinion of the Interim City Attorney of the City, as counsel to the Corporation, dated the Closing Date and addressed to the City and Underwriter, in substantially the form attached hereto as Exhibit C;

(6) An opinion of the Interim City Attorney of the City, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit D;

(7) An opinion of Underwriter's Counsel, dated the Closing Date and addressed to the Underwriter, to the effect that (a) the 2004 Certificates are exempt from registration under the Securities Act of 1933, as amended, and are municipal securities as defined in the Securities Exchange Act of 1934, as amended, and the Trust Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended; and (b) based upon the participation of such firm in the preparation of the Official Statement and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to the attention of the attorneys in such firm rendering legal services in connection with such representation that caused them to believe that the Official Statement (excluding therefrom the financial statements or other financial or statistical data or forecasts and the information concerning the Insurer, the Policy, [the Reserve Policy,] The Depository Trust Company and the book-entry system, and Appendices B through G included in the Official Statement, as to which no opinion is expressed) as of the date thereof and the Closing Date, contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(8) A signature and incumbency certificate of the Corporation and a certificate, dated the Closing Date and signed by an authorized officer of the Corporation, in substantially the form attached hereto as Exhibit E;

(9) A signature and incumbency certificate of the City and a certificate, dated the Closing Date and signed by an authorized officer of the City, in substantially the form attached hereto as Exhibit F;

(10) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Trust Agreement and the 2004 Certificates, together with a certificate to the effect that:

(i) The Trustee is a national association existing under the laws of the United States of America;

(ii) The Trustee has full corporate trust powers and authority to serve as Trustee under the Trust Agreement; and

(iii) The Trustee's actions in executing and delivering the Trust Agreement is in full compliance with and does not conflict with any applicable law or governmental regulation currently in effect and does not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound;

(11) An opinion of counsel to the Trustee, dated the Closing Date and addressed to the City and the Underwriter, to the effect that:

(i) The Trust Agreement has been duly authorized, executed and delivered by the Trustee, and, assuming due authorization, execution and delivery by the other parties thereto, the Trust Agreement constitutes a legal, valid and

binding obligation of the Trustee, enforceable in accordance with its terms, except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by the application of general principles of equity; and

(ii) The 2004 Certificates have been duly executed and delivered by the Trustee;

(12) A certified copy of the resolution of the Corporation authorizing the execution and delivery of the Trust Agreement and the Installment Purchase Agreement;

(13) A certified copy of the resolution of the City authorizing the execution and delivery of the Installment Purchase Agreement, the Continuing Disclosure Agreement and this Purchase Contract;

(14) Evidence that the 2004 Certificates are rated “AAA” by Standard & Poor’s and “Aaa” by Fitch Ratings;

(15) A copy of any Preliminary Blue Sky Survey with respect to the 2004 Certificates, prepared by Underwriter’s Counsel;

(16) A copy of the excerpted audited financial statements of the City included as Appendix B to the Official Statement;

(17) [The Policy and the Reserve Policy, duly executed and issued by the Insurer;]

(18) [An opinion of counsel to the Insurer, dated the Closing Date and addressed to the Underwriter and the City, in form and substance satisfactory to the Underwriter, together with a certificate of the Insurer in the form and substance satisfactory to the Underwriter; and]

(19) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter, Special Counsel or Underwriter’s Counsel reasonably may request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the City’s representations and warranties contained herein and of the statements and information contained in the Official Statement and of the due performance or satisfaction by the City, the Corporation and the Trustee on or prior to the Closing Date of all material agreements then to be performed and conditions then to be satisfied by any of them in connection with the transactions contemplated hereby and by the Trust Agreement and the Installment Purchase Agreement.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the 2004 Certificates contained in this Purchase Contract or if the obligations of the Underwriter to purchase, accept delivery of and pay for the 2004 Certificates shall be terminated for any reason permitted by this Purchase Contract, this

Purchase Contract and all obligations of the Underwriter hereunder may be terminated by the Underwriter at or at any time prior to the Closing Date by written notice to the Trustee and the City, and neither the Underwriter nor the City shall have any further obligations hereunder. In the event that the Underwriter fails (other than for a reason permitted by this Purchase Contract) to accept and pay for the 2004 Certificates at the Closing, the amount of one percent (1%) of the aggregate principal amount of the 2004 Certificates shall be paid by the Underwriter, as liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriter and the acceptance of such amount shall constitute a full release and discharge of all claims and rights of the City against the Underwriter as result of such failure and such default.

7. Expenses.

(a) The Underwriter shall be under no obligation to pay, and the City shall pay, any expenses incident to the performance of the City's obligations hereunder, including but not limited to: (i) the cost of preparation, printing and distribution of the Installment Purchase Agreement, the Trust Agreement, the Continuing Disclosure Agreement, the Preliminary Official Statement, the Official Statement and any supplements or amendments; (ii) the cost of preparing and printing the 2004 Certificates; (iii) the fees and disbursements of Special Counsel and the fees and expenses of counsel to the City; (iv) the fees and disbursements of any engineers, accountants and other experts, consultants or advisors retained by the City; (v) fees for bond ratings (which include fees of rating agencies and travel expenses of the City); and (vi) any premium for bond insurance.

(b) The Underwriter shall pay: (i) the cost of preparation and printing of this Purchase Contract, the Preliminary Blue Sky Survey; (ii) all advertising expenses and Blue Sky filing fees in connection with the public offering of the 2004 Certificates; (iii) fees, if any, payable to the California Debt Investment and Advisory Commission in connection with the execution and delivery of the 2004 Certificates; and (iv) all other expenses incurred by the Underwriter in connection with the public offering of the 2004 Certificates, including the fees and disbursements of Underwriter's Counsel.

8. Notices. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to: City of Lodi, 221 West Pine Street, Lodi, California 95240, Attention: Public Works Director, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to: First Albany Capital Inc., Two Embarcadero Center, Suite 420, San Francisco, California 94104.

9. Parties in Interest. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including the successors or assigns of the Underwriter), and no other person shall acquire or have any right hereunder or by virtue hereof. All of the City's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of the Underwriter; (ii) delivery of and payment for the 2004 Certificates pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

10. Effectiveness and Counterpart Signatures. This Purchase Contract shall become effective upon the execution of the acceptance hereof by an authorized officer of the City and shall be valid and enforceable at the time of such acceptance. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute but one and the same instrument.

11. Headings. The headings of the sections of this Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

12.

Governing Law. This Purchase Contract shall be construed in accordance with the laws of the State of California.

Very truly yours,

FIRST ALBANY CAPITAL INC.

By: _____
Title: _____

Accepted:

CITY OF LODI

By: _____
Title: _____

MATURITY SCHEDULE

\$_____ 2004 Certificates

<u>Maturity Date (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
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FORM OF SUPPLEMENTAL OPINION
OF ORRICK, HERRINGTON & SUTCLIFFE LLP

[Closing Date]

First Albany Capital Inc.
San Francisco, California

Wastewater System Revenue Certificates of Participation, 2004 Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
City of Lodi, California

(Supplemental Opinion)

Ladies and Gentlemen:

This opinion is addressed to you, as the Underwriter, pursuant to Section 6(e)(4) of the Certificate Purchase Contract, dated May ____, 2004 (the "Purchase Contract"), between the City of Lodi, California (the "City") and you, providing for the purchase of \$_____ aggregate principal amount of Wastewater System Revenue Certificates of Participation 2004 Series A (the "2004 Certificates"). The 2004 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2004 (the "Trust Agreement"), by and between the Lodi Public Improvement Corporation (the "Corporation") and Union Bank of California, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the respective meanings ascribed thereto pursuant to the Trust Agreement or, if not defined pursuant to the Trust Agreement, in the Purchase Contract.

In addition to the opinions set forth in our final legal opinion concerning the validity of the 2004 Certificates and certain other matters, dated the date hereof and addressed to the City (but which may be relied upon by yourselves to the same extent as if such opinion were addressed to you), and based on and subject to the matters referred to in the second through fifth paragraphs of such final legal opinion (which are hereby incorporated herein by reference), and in reliance thereon, as of the date hereof, we are of the following opinions or conclusions:

1. The Official Statement, dated May ____, 2004, with respect to the 2004 Certificates (the "Official Statement") and the execution and delivery thereof has been duly approved by the City.
2. The Purchase Contract and the Continuing Disclosure Agreement have each been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by and validity against the other parties thereto, is each a valid and binding

agreement of the City, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, arrangement and other laws affecting creditors' rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases, and by the limitations on legal remedies against municipal corporations in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained therein.

3. The 2004 Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

4. The statements contained in the Official Statement under the captions "INTRODUCTION," "THE 2004 CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 CERTIFICATES," "TAX MATTERS," "APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS," and "APPENDIX F – PROPOSED FORM OF OPINION OF SPECIAL COUNSEL," insofar as such statements purport to summarize certain provisions of the 2004 Certificates, the Trust Agreement, the Installment Purchase Agreement and our opinion concerning certain federal tax matters relating to the 2004 Certificates, are accurate in all material respects.

This letter is furnished by us as special counsel. No attorney-client relationship has existed or exists between our firm and you in connection with the 2004 Certificates or by virtue of this letter. We disclaim any obligation to update this letter. This letter is delivered to you as Underwriter of the 2004 Certificates and is solely for your benefit as such Underwriter and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to and may not be relied upon by owners of the 2004 Certificates.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

FORM OF OPINION OF COUNSEL TO THE CORPORATION

[Closing Date]

First Albany Capital Inc.
San Francisco, California

Wastewater System Revenue Certificates of Participation, 2004 Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
City of Lodi, California

Ladies and Gentlemen:

I have acted as counsel to the Lodi Public Improvement Corporation, a California nonprofit public benefit corporation (the “Corporation”), in connection with the execution and delivery of (i) the Installment Purchase Agreement, dated as of May 1, 2004 (the “Installment Purchase Agreement”), between the City of Lodi (the “City”) and the Corporation and (ii) the Trust Agreement, dated as of May 1, 2004 (the “Trust Agreement”), by and between the Corporation and Union Bank of California, N.A., as trustee thereunder (the “Trustee”). Unless otherwise defined herein, the terms defined in the Trust Agreement and the Installment Purchase Agreement have the same meanings when used in this opinion.

In connection with the foregoing, I have examined originals or copies certified or otherwise identified to my satisfaction of such documents, corporate records and other instruments as I have deemed necessary or appropriate for the purposes of this opinion, including (a) the Installment Purchase Agreement, (b) the Trust Agreement and (c) the Articles of Incorporation and Bylaws of the Corporation.

Based upon such examination, I am of the opinion that:

1. The Corporation is duly organized and validly existing under the laws of the State of California.
2. The Corporation has full corporate power and authority to execute and deliver the Trust Agreement and the Installment Purchase Agreement, and the Trust Agreement and the Installment Purchase Agreement have each been duly authorized and delivered by the Corporation, and each constitutes a legally valid and binding obligation of the Corporation enforceable against the Corporation in accordance with its respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other

laws or equitable principles relating to or affecting the enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought.

Respectfully submitted,

Counsel to the Corporation

FORM OF OPINION OF CITY ATTORNEY

[Closing Date]

First Albany Capital Inc.
San Francisco, California

Wastewater System Revenue Certificates of Participation, 2004 Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
City of Lodi, California

Ladies and Gentlemen:

Since _____, 2004, I have served as interim City Attorney to the City of Lodi (the “City”) and have acted in such capacity in connection with the execution, delivery and sale of the \$_____ aggregate principal amount of Wastewater System Revenue Certificates of Participation, 2004 Series A (the “2004 Certificates”). In such capacity, I have examined and am familiar with (i) those documents relating to the existence, organization and operation of the City; (ii) all necessary documentation of the City relating to the authorization, execution and delivery of (a) the Installment Purchase Agreement, dated as of May 1, 2004 (the “Installment Purchase Agreement”), by and between the Lodi Public Improvement Corporation (the “Corporation”) and the City, and (b) the Continuing Disclosure Agreement, dated May ___, 2004 (the “Continuing Disclosure Agreement”), by and between the City and the Trustee; (iii) an Official Statement of the City, dated May ___, 2004 (the “Official Statement”), relating to the 2004 Certificates; and (iv) a Certificate Purchase Contract, dated May ___, 2004 (the “Purchase Contract”), by and between the City and First Albany Capital Inc. (the “Underwriter”). Terms used herein that are defined in the Official Statement shall have the meanings specified therein.

I am of the opinion that:

1. The City is a general law city, duly created, organized and existing under the Constitution and laws of the State of California.
2. The City has the authority and right to execute, deliver and perform the Installment Purchase Agreement, the Continuing Disclosure Agreement and the Purchase Contract, and the City has complied with the provisions of applicable law in all matters relating to the transactions contemplated by the Installment Purchase Agreement, the Continuing Disclosure Agreement and the Purchase Contract.

3. The Installment Purchase Agreement, the Continuing Disclosure Agreement, the Official Statement and the Purchase Contract have been duly authorized, executed and delivered by the City and, assuming that the Installment Purchase Agreement, the Continuing Disclosure Agreement and the Purchase Contract constitute the legal, valid and binding agreements of the other respective parties thereto, constitute the legal, valid and binding agreements of the City enforceable against it in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, or other laws relating to or affecting the enforcement of creditors' rights generally; by the application of general principles of equity, including without limitation concepts of materiality, reasonableness, good faith, and fair dealing, regardless of whether considered in a proceeding in equity or at law; the possible unavailability of specific performance or injunctive relief; and by the limitations imposed on actions against governmental entities in the State of California.

4. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by the City of the Installment Purchase Agreement, the Continuing Disclosure Agreement or the Purchase Contract, or the performance by the City of its obligations thereunder or the execution and delivery, on the part of the City, of the 2004 Certificates.

5. The execution and delivery of the Installment Purchase Agreement, the Continuing Disclosure Agreement and the Purchase Contract by the City and compliance with the provisions thereof will not conflict with or constitute a breach of or default under any instrument relating to the organization, existence or operation of the City, or commitment, agreement or other instrument to which the City is a party or by which it or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order or decree to which the City or any of its officers in their respective capacities as such are subject or any provision of the laws of the State of California relating to the City and its affairs. For purposes of this opinion, I have deemed an instrument or agreement to be material only if it obligates the City to payments in any year of more than \$100,000.

6. Based upon my participation in the preparation of the Official Statement and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to my attention that would lead me to believe that the Official Statement (excluding therefrom the financial statements, the statistical data and the information concerning The Depository Trust Company, the book-entry system, [the Insurer, the Policy and the Reserve Policy] included therein and in Appendices B through G thereto, as to which no opinion is expressed), as of its date and the date hereof, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

7. Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation at law or in equity, or before any court, public board or body, pending or, to the best of my knowledge, threatened against or affecting the City or any entity affiliated with the City or any of its officers in their respective capacities as such (nor to the best of my knowledge, is there any basis therefor) that questions the powers of the City referred to in

paragraph 2 above or in connection with the transactions contemplated by the Official Statement, or the validity of the proceedings taken by the City in connection with the authorization, execution or delivery of the Installment Purchase Agreement, the Continuing Disclosure Agreement or the Purchase Contract, or wherein any unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Installment Purchase Agreement, the Continuing Disclosure Agreement, the Purchase Contract or the Official Statement, or that, in any way, would adversely affect the validity or enforceability of the Installment Purchase Agreement, the Continuing Disclosure Agreement or the Purchase Contract or, in any material respect, the ability of the City to perform its obligations under the Installment Purchase Agreement, the Continuing Disclosure Agreement or the Purchase Contract.

The opinions set forth above are further qualified as follows:

(a) My opinions are limited to the matters expressly set forth herein and no opinion is to be implied or may be inferred beyond the matters expressly so stated;

(b) I am licensed to practice law in the State of California; accordingly, the foregoing opinions only apply insofar as the laws of the State of California and the United States may be concerned, and I express no opinion with respect to the laws of any other jurisdiction;

(c) For the purpose of rendering the opinions set forth above, I have assumed, and I express no opinion as to, the validity of the Bonds;

(d) I express no opinion as to the enforceability under certain circumstances of contractual provisions respecting various summary remedies without notice or opportunity for hearing or correction, especially if their operation would work a substantial forfeiture or impose a substantial penalty upon the burdened party;

(e) I express no opinion as to the effect or availability of any specific remedy provided for in the Indenture under particular circumstances, except that I believe such remedies are, in general, sufficient for the practical realization of the rights intended thereby;

I furnish this letter as City Attorney. No attorney-client relationship existed or exists between myself and the addressees of this letter (other than the City) in connection with the issuance of the Bonds or by virtue of this letter. This opinion is delivered to you solely for your benefit for the purpose contemplated by the Purchase Agreement and may not be relied upon for any other purpose or by any other person without our prior written consent.

Respectfully submitted,

Interim City Attorney

FORM OF CERTIFICATE OF THE CORPORATION

I, _____, the President of the Lodi Public Improvement Corporation (the “Corporation”), hereby certify as follows:

1. The Corporation has full legal right, power and authority to (i) enter into the Trust Agreement and the Installment Purchase Agreement and (ii) carry out and consummate the transactions contemplated by the Trust Agreement and the Installment Purchase Agreement;

2. By all necessary corporate action of the Corporation prior to or concurrently herewith, the Corporation has duly authorized and approved the execution and delivery and the performance by the Corporation of the obligations in connection with the execution and delivery of the 2004 Certificates on its part contained in the Trust Agreement and the Installment Purchase Agreement, and the consummation by it of all other transactions contemplated by the Trust Agreement and the Installment Purchase Agreement in connection with the execution and delivery of the 2004 Certificates; the Corporation has complied in all material respects with the obligations in connection with the execution and delivery of the 2004 Certificates on its part contained in the Trust Agreement and the Installment Purchase Agreement;

3. Except as disclosed in the Official Statement, the Corporation is not in any material respect in breach of or default under any applicable law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement (including, without limitation, the Trust Agreement and the Installment Purchase Agreement) or other instrument to which the Corporation is a party or to which the Corporation or any of its property or assets is otherwise subject, and no event has occurred and is continuing that, with the passage of time or the giving of notice or both, would constitute such a default or event of default under any such instrument; and the execution and delivery of the Trust Agreement and the Installment Purchase Agreement and compliance with the provisions on the Corporation’s part contained therein will not conflict with or constitute a breach of or a default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Corporation is a party or to which the Corporation or any of its property or assets is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation or under the terms of any such provision, law, regulation or instrument, except as provided in the Trust Agreement and the Installment Purchase Agreement;

4. There is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, government agency, public board or body, pending or, to the best knowledge of the Corporation, threatened against the Corporation, affecting the existence of the Corporation or the titles of its officers to their respective offices, or contesting or affecting, as to the Corporation, the validity or enforceability of the Trust Agreement and the Installment Purchase Agreement; nor, to my knowledge, except as disclosed in the Official Statement, is

there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the Corporation of the Trust Agreement or the Installment Purchase Agreement;

5. The information contained under the caption "THE CORPORATION" in the Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect.

6. This certificate is provided pursuant to Section 6(e)(8) of that certain Certificate Purchase Contract by and between the City of Lodi, California (the "City"), and First Albany Capital Inc. All capitalized terms used herein that otherwise are not defined shall have the same meanings as in such Certificate Purchase Contract.

Dated: _____, 2004

LODI PUBLIC IMPROVEMENT CORPORATION

By: _____
President

CERTIFICATE OF THE CITY

I, H. Dixon Flynn, the City Manager, of the City of Lodi, California (the "City"), hereby certify as follows:

1. The representations and warranties of the City contained in the Certificate Purchase Contract, dated May __, 2004 (the "Purchase Contract"), between the City and First Albany Capital Inc. with respect to the sale by the City of \$_____ aggregate principal amount of Wastewater System Revenue Certificates of Participation, 2004 Series A (the "2004 Certificates"), are true and correct in all material respects on and as of the date hereof as if made on this date.

2. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best knowledge of the City, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the 2004 Certificates or the collection of the System Net Revenues to be used to pay the Installment Payments, or the pledge of and lien on the System Net Revenues or contesting or affecting, as to the City, the validity or enforceability of the 2004 Certificates, this Purchase Contract, the Installment Purchase Agreement, the Continuing Disclosure Agreement or contesting the tax-exempt status of interest represented by the 2004 Certificates, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the City or any authority for the execution and delivery of the 2004 Certificates, or in any way contesting or challenging the consummation of the transactions contemplated hereby, or, except as disclosed in the Official Statement, that might result in a material adverse change in the financial condition of the City or that might materially adversely affect the System Net Revenues; nor, except as disclosed in the Official Statement, is there any known basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the City of the Installment Purchase Agreement, the Continuing Disclosure Agreement or this Purchase Contract or the execution by the Trustee of the 2004 Certificates;

3. To the best of my knowledge, no event affecting the City has occurred since the date of the Official Statement that should be disclosed in the Official Statement so that the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that has not been disclosed in a supplement or amendment to the Official Statement.

4. The City has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the date hereof pursuant to the Purchase Contract with respect to the execution and delivery of the 2004 Certificates.

5. Between the date of the Purchase Contract and the date hereof, the City has not offered or issued any bonds, notes or other obligations for borrowed money, or incurred any material liabilities, direct or contingent payable from the System Net Revenues, other than with the written consent of the Underwriter, nor has there been any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the System.

6. All capitalized terms used herein that otherwise are not defined shall have the same meanings as in the Purchase Contract.

Dated: _____, 2004.

CITY OF LODI

By: _____

H. Dixon Flynn
City Manager

PRELIMINARY OFFICIAL STATEMENT DATED MAY __, 2004

NEW ISSUE - FULL BOOK-ENTRY ONLY

Ratings:
(See "Ratings" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, the interest installments of the Installment Payments paid by the City under the Installment Purchase Agreement and received by the Owners of the 2004 Certificates are excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and are exempt from State of California personal income taxes. In the further opinion of Special Counsel, the interest installments of the Installment Payments paid by the City under the Installment Purchase Agreement and received by the Owners of the 2004 Certificates are not specific preference items for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest installments are included in adjusted current earnings when calculating corporate alternative minimum taxable income. See "TAX MATTERS" herein.

\$24,545,000*

**Wastewater System Revenue Certificates of Participation, 2004 Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA**

Dated: Date of Delivery

Due: October 1, as set forth on the inside front cover

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Wastewater System Revenue Certificates of Participation, 2004 Series A (the "2004 Certificates") evidence the proportionate interests of the Owners thereof in the certain Installment Payments (the "Installment Payments") to be made by the City of Lodi, California (the "City") under the terms of an Installment Purchase Agreement, dated as of May 1, 2004 (the "Installment Purchase Agreement"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the Installment Purchase Agreement, the City is obligated to make the Installment Payments to the Corporation from System Net Revenues of the City's wastewater system. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 CERTIFICATES" herein.

The 2004 Certificates are being sold to provide funds (i) to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City (the "System"), [(ii) to fund a deposit to a reserve fund for the 2004 Certificates,] and (iii) to pay costs of delivery of the 2004 Certificates. See "THE 2004 PROJECT AND THE SYSTEM CAPITAL PLAN" herein.

The 2004 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2004 (the "Trust Agreement"), between the Corporation and Union Bank of California, N.A., as trustee (the "Trustee"). The 2004 Certificates will be delivered in fully registered form, and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2004 Certificates. Purchasers of interests in the 2004 Certificates will not receive securities certificates representing their interests in the 2004 Certificates purchased. Principal, premium, if any, and interest evidenced by the 2004 Certificates are payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2004 Certificates, as described herein. The 2004 Certificates are deliverable in denominations of \$5,000 or any integral multiple thereof. Interest evidenced by the 2004 Certificates will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 2004.

The 2004 Certificates are subject to prepayment prior to their stated maturity dates, as more fully described herein. See "THE 2004 CERTIFICATES—Prepayment Provisions" herein.

Payment of the principal of and interest evidenced by the 2004 Certificates when due (not including acceleration or prepayment) will be insured under a municipal bond insurance policy to be issued by _____ simultaneously with the delivery of the 2004 Certificates.

[logo]

The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from System Net Revenues, on a parity with \$14.39 million outstanding aggregate principal amount (as of May 1, 2004) of installment payments payable by the City in connection with the City's outstanding Parity Obligations. (See "THE WASTEWATER SYSTEM—Outstanding Wastewater System Obligations" herein.) The general fund of the City is not liable for, and neither the faith and credit nor the taxing power of the City is pledged to, the payment of the Installment Payments. The City may incur other obligations payable from System Net Revenues on a parity with the Installment Payments in accordance with the Installment Purchase Agreement, as described herein.

The 2004 Certificates are offered when, as and if executed and delivered to the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Sidley Austin Brown & Wood LLP, Los Angeles, California, and for the City by the Interim City Attorney of the City of Lodi. It is expected that the 2004 Certificates in definitive form will be available for delivery in New York, New York through the DTC book-entry system on or about May __, 2004.

FIRST ALBANY CAPITAL

[logo]

Dated: May __, 2004

* Preliminary, subject to change.

MATURITY SCHEDULE*

\$_____ Serial 2004 Certificates
(Base Cusip Number _____)

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number</u>	<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number</u>
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\$_____ % Term 2004 Certificates due October 1, _____ - Price _____ %; CUSIP Number _____

* Preliminary, subject to change.

CITY OF LODI, CALIFORNIA

City Council

Larry D. Hansen, Mayor
John Beckman, Mayor Pro Tem
Susan Hitchcock, Council Member
Emily Howard, Council Member
Keith Land, Council Member

City Officials

H. Dixon Flynn, City Manager
Janet Keeter, Deputy City Manager
Susan J. Blackston, City Clerk
Stephen Schwabauer, Interim City Attorney
Vicky McAthie, Finance Director/Treasurer
Richard C. Prima, Jr., Public Works Director

LODI PUBLIC IMPROVEMENT CORPORATION

Board of Directors

Larry D. Hansen
John Beckman
Susan Hitchcock
Emily Howard
Keith Land

SPECIAL SERVICES

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California
Special Counsel

Public Financial Management, Inc.
San Francisco, California
Financial Advisor

Union Bank of California, N.A.
San Francisco, California
Trustee

Macias, Gini & Company LLP
Sacramento, California
Independent Accountants

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2004 Certificates by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Statements contained in this Official Statement that include forecasts, estimates or matters of opinion, whether or not expressly stated as such, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the City and by other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriter. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall create, under any circumstances, any implication that there has been no change in affairs of the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2004 CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2004 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as specifically set forth herein, the City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

Relating to

\$24,545,000*

Wastewater System Revenue Certificates of Participation, 2004 Series A Evidencing the Proportionate Interests of the Owners Thereof in Certain Installment Payments to be Made by the CITY OF LODI, CALIFORNIA

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2004 Certificates to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See "APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS" herein.

Purpose

The purpose of this Official Statement (which includes the cover page and the appendices attached hereto) is to provide certain information concerning the sale and delivery of \$24,545,000* aggregate principal amount of Wastewater System Revenue Certificates of Participation, 2004 Series A (the "2004 Certificates"). The 2004 Certificates evidence the proportionate interests of the registered owners (the "Owners") thereof in installment payments (the "Installment Payments") to be made by the City of Lodi, California (the "City") under the terms of an Installment Purchase Agreement, dated as of May 1, 2004 (the "Installment Purchase Agreement"), between the City and the Lodi Public Improvement Corporation (the "Corporation").

The 2004 Certificates

The 2004 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2004 (the "Trust Agreement"), between the Corporation and Union Bank of California, N.A., as trustee thereunder (the "Trustee"). The 2004 Certificates are being sold to provide funds (i) to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City (the "System") (see "THE 2004 PROJECT AND THE SYSTEM CAPITAL PLAN" herein), [(ii) to fund a deposit to a reserve fund for the 2004 Certificates,] and (iii) to pay costs of delivery of the 2004 Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security and Sources of Payment for the 2004 Certificates

The obligation of the City to make the Installment Payments pursuant to the Installment Purchase Agreement is a special obligation payable solely from and secured solely by System Net Revenues on a parity with the \$14.390 million outstanding aggregate principal amount (as of May 1, 2004) of installment payments payable by the City in connection with the City's outstanding Parity Obligations. See "THE WASTEWATER SYSTEM—Outstanding Wastewater System Obligations" herein. The City may incur additional obligations payable from and secured by the System Net Revenues on a parity with the Installment Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 CERTIFICATES—Additional Parity Debt" herein.

* Preliminary, subject to change.

The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from the System Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Rate Covenant

Pursuant to the Installment Purchase Agreement, the City covenants that it will at all times fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 110% of the Annual Debt Service in such Fiscal Year; provided, an adjustment will be made to the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund, provided that, for purposes of such calculation, the amount of System Net Revenues before any credits for transfers from the Rate Stabilization Fund to the System Revenue Fund may not be less than 100% of Annual Debt Service for such Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 CERTIFICATES—Rate Covenant” herein.

Reserve Fund

A Reserve Fund is established with the Trustee pursuant to the Trust Agreement in an amount equal to the Reserve Fund Requirement (as defined in the Trust Agreement). Amounts on deposit in the Reserve Fund will be applied to pay principal and/or interest evidenced by the 2004 Certificates in the event amounts on deposit in the Debt Service Fund are insufficient therefor. In lieu of funding the Reserve Fund with cash, there may be credited to the Reserve Fund a debt service reserve policy (the “Reserve Policy”) in the amount of the Reserve Fund Requirement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 CERTIFICATES—Reserve Fund” herein.

Certificate Insurance

Payment of the principal and interest evidenced by the 2004 Certificates when due (not including acceleration or prepayment) will be insured by a municipal bond insurance policy (the “Policy”) to be issued by the Insurer simultaneously with the delivery of the 2004 Certificates. See “CERTIFICATE INSURANCE” herein.

Continuing Disclosure

The City has covenanted for the benefit of the Owners and beneficial owners of the 2004 Certificates to provide certain financial information and operating data relating to the City and the System annually, and to provide notices of the occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” herein.

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder, under any circumstances, shall create any implication that there has been no change in the affairs of the City or the System since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

Copies of the Trust Agreement and the Installment Purchase Agreement are available for inspection at the City Hall of the City in Lodi, California, and will be available from the Trustee upon request and payment of duplication costs.

THE 2004 PROJECT AND THE SYSTEM CAPITAL PLAN

The 2004 Certificates are being executed and delivered to provide funds (i) to finance the costs of certain improvements to the System, [(ii) to fund a deposit to a reserve fund for the 2004 Certificates,] and (iii) to pay costs of delivery of the 2004 Certificates.

Background. The City's wastewater treatment facility, the White Slough Water Pollution Control Facility (the "White Slough Facility"), operates pursuant to a National Pollutant Discharge Elimination System ("NPDES") permit administered by the State of California Regional Water Quality Control Board, Central Valley Region (the "RWQCB"). In May 2000, the RWQCB adopted a plan for the implementation of new discharge requirements to be imposed under NPDES permits. The State implementation plan establishes a schedule for achieving compliance with the new standards of up to five years.

In January 2001, the City adopted a Wastewater System Master Plan which included the evaluation of the improvements required to meet the new permit requirements, as well as other future improvements determined to be undertaken for the System. In accordance with the Wastewater System Master Plan, the improvements are being undertaken in a three phase construction process. The first phase of improvements, consisting of the installation of aeration blower equipment, electrical and building modifications for the blowers, and earthquake and fire installations in preparation for certain phase two improvements, are under construction and expected to be completed by early Summer 2004. The phase one improvements are estimated to cost approximately \$4 million and were financed by the City from its share of the proceeds of the 2003 CSCDA Bonds (as hereinafter defined). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 CERTIFICATES—Outstanding Parity Obligations" herein.

The 2004 Project. The proceeds of the 2004 Certificates will be primarily utilized to finance the costs of the phase two improvements to be undertaken by the City in connection with the new discharge requirements imposed under its NPDES permit (the "2004 Project") at an estimated cost of approximately \$25 million. The 2004 Project consists of the following additions, betterments, extensions, replacements and improvements to the System:

- Equipment for Phase 2 of the upgrade of the White Slough Water Pollution Control Facility, including Tertiary filters, UV disinfection equipment and aeration panels at an estimated cost of approximately \$4.0 million;
- Installation of the above equipment along with associated equipment, structures and appurtenances at an estimated cost of \$8.1 million;
- Land acquired in connection with improvements and buffer zones for the White Slough Water Pollution Control Facility at an estimated cost of \$3.5 million;
- Equipment and other improvements associated with Phase 3 of the White Slough Water Pollution Control Facility Improvement Project at an estimated cost of \$1.9 million;
- Improvements to the wastewater collection system and support facilities and engineering, environmental, legal and other expenses associated with the above improvements at an estimated cost of \$7.5.

The 2004 Project shall also include such other betterments, extensions, replacements and improvements to the System as shall be specified in a Certificate of the City delivered to the Trustee accompanied by a Favorable Opinion of Bond Counsel with respect to the payment of the Costs of such additional betterments, extensions, replacements and improvements with the proceeds of the 2004 Certificates.

The City is responsible for obtaining all California Environmental Quality Act (“CEQA”) approvals as well as various construction permits and approvals for the 2004 Project. The City Planning Commission certified a negative declaration for the Phase 2 improvements on June 25, 2003. The City expects to obtain all remaining permits and approvals in a timely fashion.

Pursuant to the NPDES implementation plan, the City’s phase two improvements were originally required to be in place by May 2004; however, since the City does not discharge in the summer months, completion of the improvements by September 2004 would satisfy the permit requirements. The City has requested an extension of the compliance date for the 2004 Project to January 2005 from the RWQCB. The City anticipates that such extension will be granted, but is unable to predict at this time when approval of such extension will be received. Design for the equipment installation and related improvements has been completed, construction bids have been received and a construction contract is expected to be awarded on April 27, 2004 [update after award]. The design work is underway for certain other components of the 2004 Project. The final construction contract for the 2004 Project is expected to be awarded in early 2005. Construction of the major improvements is expected to commence in May 2004 and be substantially completed by January 2005.

Future Improvements. Planned phase three improvements include outfall relocation, secondary plant improvements, and a treatment wetland. The phase three improvements are expected to be undertaken in 2006 at an estimated cost of approximately \$20 million. The City anticipates that the phase three improvements will be funded from the proceeds of a future financing which is expected to occur in 2006. In addition to the White Slough Facility improvements the City expects to undertake additional capital projects for the System. See “THE WASTEWATER SYSTEM—Planned Capital Improvements” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the 2004 Certificates are as follows:

Sources:

Principal Amount of 2004 Certificates.....	\$
Original Issue Premium	
Total Sources	\$
Deposit to Improvement Fund	\$
[Deposit to Reserve Fund ⁽¹⁾]	
Costs of Issuance ⁽²⁾	
Total	\$

⁽¹⁾ Represents an amount equal to the Reserve Fund Requirement.

⁽²⁾ Includes legal, financing and consulting fees, Trustee’s fees, Underwriter’s discount, printing costs, rating agency fees, bond insurance premium and other costs incurred in connection with the delivery of the 2004 Certificates.

THE 2004 CERTIFICATES

General

The 2004 Certificates will be executed and delivered in the aggregate principal amount of \$24,545,000*. The 2004 Certificates will be prepared as one fully registered securities certificate for each maturity, and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York

* Preliminary, subject to change.

(“DTC”). DTC will act as securities depository for the 2004 Certificates. Principal, prepayment premium, if any, and interest evidenced by the 2004 Certificates are payable by the Trustee to DTC, which is obligated in turn to remit such principal, prepayment premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2004 Certificates. See “APPENDIX C – BOOK-ENTRY ONLY SYSTEM” herein.

The 2004 Certificates will be delivered in authorized denominations of \$5,000 or any integral multiple thereof. Interest evidenced by the 2004 Certificates is payable on October 1, 2004 and semiannually thereafter, on each April 1 and October 1 (each, an “Interest Payment Date” for the 2004 Certificates), computed on the basis of a 360-day year comprised of twelve 30-day months. The 2004 Certificates will be dated the date of delivery thereof, will mature on the dates and in the principal amounts and will evidence interest at the rates, all as set forth on the inside front cover of this Official Statement.

Prepayment Provisions

Optional Prepayment

The 2004 Certificates maturing on or prior to October 1, ____ are not subject to optional prepayment prior to their stated maturity dates. The 2004 Certificates maturing on and after October 1, ____ are subject to prepayment prior to their stated maturity dates, on any date on or after October 1, ____, as a whole or in part, at the option of the City, from any source of available funds, at a prepayment price equal to 100% of the principal amount of 2004 Certificates or portions thereof to be prepaid, plus unpaid accrued interest thereon to the date fixed for prepayment, without a prepayment premium.

Mandatory Prepayment

The 2004 Certificates maturing on October 1, ____ are subject to mandatory prepayment prior to maturity, in part by lot, commencing on October 1, ____ and on each October 1 thereafter to and including October 1, ____, from scheduled Installment Payments made by the City on such dates, at a prepayment price equal to the principal amount of the 2004 Certificates to be prepaid, plus unpaid accrued interest thereon to the date fixed for prepayment, without a prepayment premium, according to the following schedule (subject to modification in the event of optional prepayment as described above):

2004 Certificates due on October 1, ____	
Prepayment Date (October 1)	Principal Amount
\$	

†

† Final maturity.

Notice of Prepayment

Notice of prepayment of 2004 Certificates shall be mailed by the Trustee not less than thirty (30) days nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the 2004 Certificates designated for prepayment at their addresses as shown on the registration books maintained by the Trustee, (ii) the Securities Depositories, and (iii) one or more Information Services. Each notice of prepayment shall state the date of such notice, prepayment price, the place of prepayment, the CUSIP number, if any, and if less than all of the 2004 Certificates of any one maturity are to be prepaid, the distinctive certificate numbers of the 2004 Certificates to be

prepaid, and in the case of 2004 Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said 2004 Certificates the prepayment price thereof or of said specified portion of the principal amount thereof to be prepaid and that from and after such prepayment date interest with respect thereto shall cease to accrue, and shall require that such 2004 Certificates be then surrendered. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such prepayment. The failure to receive such notice or any defect therein shall not affect the sufficiency of such prepayment.

In the event of prepayment of 2004 Certificates (other than mandatory prepayment), the Trustee will mail a notice of prepayment upon receipt of a Written Request of the City but only after the City files a Certificate of the City with the Trustee that, on or before the date set for prepayment, the City will deposit with or otherwise make available to the Trustee for deposit in the Debt Service Fund the money required for payment of the prepayment price, including accrued interest evidenced thereby, of all 2004 Certificates then to be called for prepayment (or the Trustee determines that money will be deposited with or otherwise made available to it in sufficient time for such purpose), together with the estimated expense of giving such notice.

Unless the book-entry only system shall have been discontinued, the Corporation, the City and the Trustee will recognize only DTC or its nominee as an Owner. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to beneficial owners will be governed by arrangements between them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Selection of Certificates for Prepayment

If less than all Outstanding 2004 Certificates of any particular maturity are to be prepaid at any one time, the Trustee shall select the 2004 Certificates or the portions of the 2004 Certificates to be prepaid by lot in a manner which the Trustee deems to be fair. For purposes of selecting 2004 Certificates to be prepaid, 2004 Certificates shall be deemed to be composed of \$5,000 multiples and any such multiple of principal amount may be separately prepaid, subject to the requirement that the unpaid balance of any 2004 Certificate prepaid in part must be in an authorized denomination.

Effect of Prepayment

If notice of prepayment has been duly given as aforesaid, and money for the payment of the prepayment price of the 2004 Certificates (or portions thereof) so called for prepayment is held by the Trustee, then on the prepayment date designated in such notice, the 2004 Certificates (or portions thereof) so called for prepayment shall become due and payable, and from and after the prepayment date so designated, interest with respect to the 2004 Certificates (or portions thereof) so called for prepayment shall cease to accrue, such 2004 Certificates (or portions thereof) shall cease to be entitled to any benefit or security under the Trust Agreement and the Installment Purchase Agreement, and the Owners of such 2004 Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof from the money held by the Trustee for such purpose.

SECURITY AND SOURCES OF PAYMENT FOR THE 2004 CERTIFICATES

Installment Payments

The 2004 Certificates evidence the proportionate interests of the Owners in the Installment Payments to be made by the City pursuant to the Installment Purchase Agreement. The Installment Purchase Agreement provides that the City's obligation to make the Installment Payments is absolute and unconditional, and, until such time as the Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the City will not discontinue or suspend any Installment Payment required to be paid by the City under the Installment Purchase Agreement, whether or not the System or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments shall be net payments to the Corporation and shall not be subject to deduction, abatement, reduction or diminution, whether by offset or otherwise, and shall not be

conditional upon the performance or nonperformance by any party to any agreement or for any other cause whatsoever. Notwithstanding anything to the contrary contained in the Installment Purchase Agreement, the City shall not be required to advance any moneys derived from any source of income other than the System Revenues, the System Revenue Fund and other funds provided for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement.

Pursuant to the Trust Agreement, the Corporation transfers, assigns and sets over to the Trustee all of the Installment Payments and any and all rights, title, interest and privileges it has in, to and under the Installment Purchase Agreement (other than its rights to expenses and indemnification), including without limitation, the right to collect and receive directly all of the Installment Payments and the right to enforce the provisions of the Installment Purchase Agreement. The City consents to such assignment in the Installment Purchase Agreement and agrees to make payments of the Installment Payments directly to the Trustee. The Trustee also shall, subject to the provisions of the Trust Agreement, take all steps, actions and proceedings required to be taken, as provided in an opinion of counsel delivered to the Trustee, reasonably necessary to maintain in force for the benefit of the Owners of the 2004 Certificates the Trustee's rights in and priority to the security granted to it for the payment of the Installment Payments as assignee of the Installment Payments and all of the Corporation's rights, title, interest and privileges in, to and under the Installment Purchase Agreement (other than its rights to indemnification and expenses), and all other rights and property which the Trustee may receive in the future as security for the 2004 Certificates.

The Trust Agreement provides that all of the Installment Payments received by the Trustee shall be deposited immediately in the Debt Service Fund. All of the Installment Payments shall be held in trust by the Trustee for the benefit of the Owners of the 2004 Certificates but shall be disbursed and applied only as provided in the Trust Agreement.

Defined Terms

For the purposes of the Trust Agreement and the Installment Purchase Agreement, the following terms are given the following meanings:

“System Net Revenues” is defined under the Installment Purchase Agreement as, for any period, System Revenues less Operation and Maintenance Costs for such period; provided that certain adjustments in the amount of System Net Revenues for a Fiscal Year may be made in connection with amounts deposited in and transferred from the Rate Stabilization Fund. “System Revenues” is defined under the Installment Purchase Agreement as all gross income and revenue received or receivable by the City from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the City in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the City from the ownership or operation of the System or arising from the System. System Revenues for any Fiscal Year shall include, for the purposes permitted by the Installment Purchase Agreement, amounts transferred to the System Revenue Fund from the Rate Stabilization Fund during such Fiscal Year.

“Operation and Maintenance Costs” is defined under the Installment Purchase Agreement as the reasonable and necessary costs paid or incurred by the City for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the City that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Installment Purchase Agreement or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the Trustee and the Corporation and fees and expenses of Independent Certified Public Accountants and deposits to the Rebate Fund; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, (iii) depreciation,

replacement and obsolescence charges or reserves therefor and amortization of intangibles, and (iv) transfers from the System Revenue Fund to other funds or accounts of the City other than the administrative costs of the City described above.

For definitions of additional terms used in the Installment Purchase Agreement and the Trust Agreement, see “APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS” herein.

Pledge of System Net Revenues

Pursuant to the Installment Purchase Agreement, all System Net Revenues and all amounts on deposit in the System Revenue Fund are irrevocably pledged to the payment of the Installment Payments, as provided in the Installment Purchase Agreement. The Installment Purchase Agreement provides that such pledge, together with the pledge of System Net Revenues and amounts in the System Revenue Fund securing all other Parity Debt shall, subject to application as permitted in the Installment Purchase Agreement, constitute a first lien on System Net Revenues and amounts on deposit in the System Revenue Fund.

The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from the System Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Rate Covenant

The Installment Purchase Agreement provides that the City will, at all times until all Installment Payments have been fully paid or provision has been made therefor in accordance with the Installment Purchase Agreement, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

- (i) All current Operation and Maintenance Costs.
- (ii) The Installment Payments and all other Parity Obligation Payments and all payments on Subordinate Obligations as they become due and payable.
- (iii) All payments required for compliance with the terms of the Trust Agreement and the Installment Purchase Agreement, including restoration of the Reserve Fund to an amount equal to the Reserve Fund Requirement.
- (iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the System Revenues.

In addition to the foregoing requirements, the City will, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 110% of the Annual Debt Service in such Fiscal Year; provided an adjustment will be made to the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund; provided that, for purposes of such calculation, the amount of System Net Revenues before any credits for transfers from the Rate Stabilization Fund to the System Revenue Fund may not be less than 100% of Annual Debt Service for such Fiscal Year.

Reserve Fund

Pursuant to the Trust Agreement, the Reserve Fund is to be held by the Trustee so long as the Installment Purchase Agreement has not been discharged in accordance with its terms or any 2004 Certificates remain Outstanding. The Reserve Fund is required to be maintained in an amount equal to the Reserve Fund Requirement (See “Application of System Revenues” below) pursuant to the Trust Agreement. [The Reserve Fund Requirement

may be satisfied by the Reserve Policy.] Moneys on deposit in the Reserve Fund shall be transferred, and if the amount of money then on deposit in the Reserve Fund is insufficient therefor, amounts shall be drawn on the Reserve Policy and transferred, by the Trustee to the Debt Service Fund to pay principal and/or interest evidenced by the 2004 Certificates on each date such principal and/or interest is due and payable in the event amounts on deposit therein are insufficient for such purposes. The Reserve Fund is not available for the payment of any Parity Obligations of the City nor is any other reserve fund relating to any Parity Obligations available for the payment of any insufficiency with respect to the Installment Payments.

Any money in the Reserve Fund in excess of the Reserve Fund Requirement as permitted by the Trust Agreement may, at the written request of the City, be withdrawn from the Reserve Fund and transferred to the City for deposit in the System Revenue Fund.

“Reserve Fund Requirement” is defined in the Trust Agreement to mean as of any date of determination, the least of (a) 10% of the initial offering price to the public of the 2004 Certificates as determined under the Code, or (b) the greatest Annual Debt Service with respect to the Installment Payments in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Installment Payment is due, or (c) 125% of the sum of the Annual Debt Service with respect to the Installment Payments for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of the 2004 Certificates) and terminating with the last Fiscal Year in which any Installment Payment is due, divided by the number of such Fiscal Years, all as computed and determined by the City and specified in writing to the Trustee.

Amounts on deposit in the Reserve Fund will be applied to pay principal and/or interest evidenced by the 2004 Certificates in the event amounts on deposit in the Debt Service Fund are insufficient therefor.

Application of System Revenues

The City agrees and covenants in the Installment Purchase Agreement that all System Revenues it receives (except for net proceeds of any casualty insurance or condemnation award) will be deposited when and as received in the System Revenue Fund, which the City has established and which the City agrees to maintain separate and apart from other moneys of the City until all Installment Payments have been fully paid or provision has been made therefor in accordance with the Installment Purchase Agreement. Moneys in the System Revenue Fund shall be used and applied only as provided in the Installment Purchase Agreement. The Installment Purchase Agreement provides that the City is to pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the System Revenue Fund as they become due and payable and all remaining money in the System Revenue Fund shall be set aside and deposited by the City at the following times in the following order of priority:

- (1) *Installment Payments.* Not later than each Installment Payment Date (*i.e.*, March 15 and September 15 of each year), the City is required to, from the moneys in the System Revenue Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The City will also, from the moneys in the System Revenue Fund, transfer when due to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any Parity Obligation Payments in accordance with the provisions of the applicable Parity Obligation.
- (2) *Reserve Fund.* On or before the first Business Day of each month, the City is required to, from the remaining moneys in the System Revenue Fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit in the Reserve Fund in accordance with the Trust Agreement and to the applicable trustee for such other debt service reserve funds, if any, as may have been established in connection with Parity Obligations that sum, if any, necessary to restore: (i) the Reserve Fund to an amount equal to the Reserve Fund Requirement and otherwise replenish the Reserve Fund for any withdrawals (including draws upon the Reserve Policy) to pay the Installment Payments due

under the Installment Purchase Agreement and (ii) necessary to restore such other debt service funds to an amount equal to the amount required to be maintained therein; *provided* that payments to restore the Reserve Fund after a withdrawal will be in an amount equal to 1/12 of the aggregate amount needed to restore the Reserve Fund to the Reserve Fund Requirement as of the date of the withdrawal. To the extent that draws on the Reserve Fund are from the Reserve Policy as permitted under the Trust Agreement, transfers under the Installment Purchase Agreement to restore the Reserve Fund shall be made to reimburse the provider of the Reserve Policy to the extent the Reserve Policy is reinstated.

- (3) *Surplus.* Moneys on deposit in the System Revenue Fund not necessary to make any of the payments required above in a Fiscal Year, may be expended by the City at any time for any purpose permitted by law, including but not limited to payments with respect to Subordinate Obligations and deposits to the Rate Stabilization Fund.

Outstanding Parity Obligations

As of May 1, 2004, the City had outstanding \$9,390,000 principal amount of Certificates of Participation (1991 Wastewater Treatment Plant Expansion Refunding Project) (the "1991 Certificates"). The 1991 Certificates evidence the proportionate interests in payments (the "1991 Installment Payments") to be made by the City pursuant to an Installment Sale Agreement, dated as of December 1, 1991 (the "1991 Installment Sale Agreement"), between the City and the Corporation. In addition, the City has entered into an Installment Purchase Agreement, dated as of October 1, 2003 (the "2003 Installment Purchase Agreement"), by and between the City and the California Statewide Communities Development Authority ("CSCDA"), pursuant to which the City is obligated to make certain installment payments (the "2003 Installment Payments") to CSCDA which 2003 Installment Payments secure, in part, certain CSCDA Water and Wastewater Revenue Bonds (Pooled Financing Program) Series 2003B (the "2003 CSCDA Bonds"). The City's outstanding principal obligation under the 2003 Installment Purchase Agreement was \$5,000,000 as of May 1, 2004. The 1991 Installment Payments and the 2003 Installment Payments are payable from System Net Revenues on a parity with the payment of the Installment Payments. See "THE WASTEWATER SYSTEM—Outstanding Wastewater System Obligations" herein.

Additional Parity Debt

The Installment Purchase Agreement provides that the City may at any time enter into or otherwise incur any obligations secured by a pledge of System Net Revenues on a parity with the Installment Payments ("Parity Debt") and the outstanding Parity Obligations, but only if the System Net Revenues for the last completed Fiscal Year or any 12 consecutive months within the last 18 months preceding the date of entry into or incurrence of such Parity Debt, as shown by a Certificate of the City on file with the Trustee, plus an allowance for increased System Net Revenues arising from any increase in the rates, fees and charges of the System which was duly adopted by the City Council of the City prior to the date of entry into or incurrence of such Parity Debt but which, during all or any part of such 12-month period, was not in effect, in an amount equal to the amount by which the System Net Revenues would have been increased if such increase in rates, fees and charges had been in effect during the whole of such 12-month period, as shown by a Certificate of the City on file with the Trustee, produce a sum equal to at least 110% of the Maximum Annual Debt Service as calculated after the entry into or incurrence of such Parity Debt; provided, that in the event that all or a portion of such Parity Debt is to be issued for the purpose of refunding and retiring any Parity Debt then Outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Debt being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service; *provided further*, that the City may at any time enter into or incur Parity Debt without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Debt are Outstanding will not be increased by reason of the issuance of such Parity Obligations; and provided further, an adjustment will be made in the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund.

Rate Stabilization Fund

Pursuant to the Installment Purchase Agreement, a Rate Stabilization Fund is to be held and maintained by the City until all Installment Payments have been fully paid or provision has been made therefor in accordance with

the Installment Purchase Agreement. The City may, during or within 210 days after a Fiscal Year, transfer surplus System Net Revenues attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) from the System Revenue Fund to the Rate Stabilization Fund. The City may at any time transfer moneys from the Rate Stabilization Fund to the System Revenue Fund. System Net Revenues deposited into the Rate Stabilization Fund will not be taken into account as System Net Revenues for the Fiscal Year to which such deposited System Net Revenues are attributable for purposes of the calculations required by the covenants in the Installment Purchase Agreement relating to coverage and additional Parity Obligations in the Fiscal Year to which such deposit is attributable, and amounts withdrawn from the Rate Stabilization Fund and deposited into the System Revenue Fund, may be taken into account as System Revenues for purposes of the calculations required by such covenants for the Fiscal Year in which such deposit is made; provided that, for purposes of the calculation described in the last paragraph under "Rate Covenant" above, the amount of System Net Revenues before any credits for transfers from the Rate Stabilization Fund to the System Revenue fund may not be less than 100% of Annual Debt Service for such Fiscal Year.

Limitation on Remedies

In addition to the limitations on remedies contained in the Trust Agreement and the Installment Purchase Agreement, the rights and remedies provided in the Trust Agreement and the Installment Purchase Agreement may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

CERTIFICATE INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the City. No representation is made herein by the City as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix G for a specimen of the Insurer's Policy.

[TO COME]

THE WASTEWATER SYSTEM

General

The City of Lodi is located in the County of San Joaquin (the "County") between Stockton and Sacramento, and adjacent to U.S. Highway 99, approximately 90 miles east of San Francisco. The City was incorporated as a General Law City on December 6, 1906. The City operates under a City Council-Manager form of government and provides the following services: public safety (police, fire and graffiti abatement), public utilities services (electric, water and sewer), transportation services (streets, flood control and transit), leisure, cultural and social services (parks and recreation, library, and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance). As of January 1, 2003, the City had an estimated population of 60,500 within an area of approximately 12.598 square miles. See "APPENDIX A – THE CITY OF LODI" herein. Since 1923, the City has been providing wastewater collection and treatment services to the community.

Governance and Management

The City is governed by a five-member City Council comprised of members elected at large. Each council member is elected for four years with staggered terms.

The current City Council members and the expiration dates of their terms are set forth below.

Council Member	Title	Expiration of Term
Larry D. Hansen	Mayor	December 2006
John Beckman	Mayor Pro Tem	December 2006
Susan Hitchcock	Council Member	December 2004
Emily Howard	Council Member	December 2006
Keith Land	Council Member	December 2004

The City Manager of the City is H. Dixon Flynn. Mr. Flynn was appointed in August 1995. From June 1991 to August 1995, he served as the Finance Director for the City of Lodi. Prior to this, Mr. Flynn was the Finance Systems Manager for the City of San Luis Obispo (October 1985 to June 1991) and a Finance Officer in the United States Army (June 1964 to September 1985) in which he served in a number of locations and positions. Mr. Flynn received his Bachelor of Science Degree in Accounting from New Mexico State University in 1964 and his Master of Science Degree in Industrial Engineering from the University of Arkansas in 1976.

Financial management of the City is provided by Vicky McAthie, the City's Finance Director/Treasurer. Ms. McAthie was appointed in November 1995. From January 1991 to November 1995, she was the Accounting Manager for the City. Prior to this, Mrs. McAthie worked for the City of Stockton from June 1974 to December 1990, starting as an Account Clerk and ending as an Accountant II. Mrs. McAthie received her Bachelor of Science Degree in Business Administration, Accounting in 1991 and her Master of Public Administration in 1994 from the California State University, Stanislaus. Mrs. McAthie is a Certified California Municipal Treasurer, a Certified Government Financial Manager, a Certified Municipal Finance Administrator, Certified Fraud Specialist and a Certified Cash Handler. In addition, Mrs. McAthie has been a budget reviewer for both the Government Finance Officers Association and the California Society of Municipal Finance Officers for several years. Mrs. McAthie will retire as the City's Finance Director/Treasurer effective in June 2004. The City has hired a new Finance Director, Jim Krueger who is scheduled to commence his position with the City in May 2004. Mr. Krueger is currently the finance director for the City of Bend, Oregon.

Management and administration of the City's Wastewater System is provided by Richard C. Prima, Jr., Public Works Director. Mr. Prima has been with the City for 28 years, having served as Public Works Director since 1998. From 1975 to 1998, he served as a city engineer to the City. Prior to this, Mr. Prima worked for Pacific Gas & Electric Company as an engineer designer from 1974 to 1975. Mr. Prima received his Bachelor of Science Degree in Civil Engineering from the University of California at Berkeley in 1974 and is a registered civil engineer in the State of California. In addition, Mr. Prima is a member of the American Public Works Association, the American Society of Civil Engineers, the Institute of Transportation Engineers, the American Waterworks Association and the Water Environment Federation.

Del Kerlin is the Assistant Wastewater Treatment Superintendent at the City's White Slough Facility. In this capacity he has oversight for the day-to-day operation and maintenance of the White Slough Facility. He is also responsible for the several leases of City property surrounding the White Slough Facility, which entail farming, power generation, and a fish rearing operation. Mr. Kerlin has administrative responsibilities that include budget preparation and implementation, capital projects development, and interpreting and enforcing regulatory requirements. His position reports to the Public Works Director. Mr. Kerlin has served in this capacity since 1987 and has cumulative experience of 28 years in the wastewater field. He holds a Grade V Wastewater Plant Operator Certificate and a Grade III Water Treatment Operator Certificate. He also received a Bachelor's Degree in Management from Saint Mary's College of Moraga and is an active member of the California Water Environment Association and the Water Environment Federation.

Employees

As of January 1, 2004, the City had 40 full-time equivalent employee positions budgeted for the System and the City's water system. Employees of the System and the City's water system are represented by the Maintenance and Operators Bargaining Unit, whose Memorandum of Understanding expired on June 30, 2003. A successor Memorandum of Understanding is currently being negotiated. The City has never experienced a labor strike.

Retirement Programs

Retirement benefits to City employees are provided through the City's participation in the California Public Employees Retirement System ("PERS"). The City's contribution rate is determined by periodic actuarial calculations based on the benefit formula and the number of employees and their respective salary schedules. As of June 30, 2003, the City had no unfunded pension benefit obligation. See Note 10 to the City's audited financial statements included in APPENDIX B hereto.

Insurance

The City's boiler and machinery operations (including those part of the System) are insured by Hartford Steam Boiler for up to \$5 million per occurrence. The City, including the System, is self-insured for general liability for up to \$500,000 and has pooled excess coverage through the California Joint Powers Risk Management Authority for up to \$15 million per occurrence. The City is self-insured for workers' compensation for up to \$250,000 and has pooled excess coverage through the Local Agency Workers' Compensation Excess Authority for up to \$25 million.

System Facilities

The System consists of 186.5 miles of wastewater mains, seven pump stations and one wastewater treatment plant, the White Slough Facility. The White Slough Facility is located in a primarily agricultural area adjacent to Interstate 5, approximately 6.5 miles southwest of the City. The White Slough Facility is designed for maximum daily capacity of approximately 8.5 million of gallons per day ("mgd"). However, the Waste Discharge Requirements ("WDRs") issued by the RWQCB presently limit the average dry weather flow from the White Slough Facility to 7.0 mgd to limit impacts on dissolved oxygen concentrations in Dredger Cut, a waterway connecting to White Slough. The average current daily demand on the White Slough Facility is approximately 6.6 mgd.

The White Slough Facility was originally constructed in 1966 to replace an older wastewater treatment plant in the City. The White Slough Facility assists the City in maintaining water quality standards required for the protection of the environmentally sensitive Sacramento-San Joaquin Delta. Through the years, the White Slough Facility has been expanded and improved to meet the increasingly stringent environmental protection standards. The most recent project, completed in 1992, expanded the White Slough Facility to a capacity of 8.5 million gallons per day. The 8.5 mgd flow capacity is expected to be sufficient to accommodate the City's growth projections through 2020.

The White Slough Facility consists of an activated sludge system and an aerated lagoon and storage pond system, having an approximate 100 million of gallons capacity. Preliminary treatment of the domestic wastewater is accomplished by comminutors, detritors and five rectangular clarifiers. Secondary treatment facilities consist of four activated sludge aeration basins with a fine bubble aeration system, and two circular secondary clarifiers. The aeration system is driven by four centrifugal blowers. The treated effluent is then disinfected through a chlorine contact tank and dechlorinated prior to surface water discharge. Industrial effluent and a portion of the treated domestic effluent are used for irrigation of an adjacent 790 acres of City-owned agricultural land. The remaining treated domestic effluent is discharged to Dredger Cut, a waterway connecting to White Slough. Sludge is thickened and then digested in three anaerobic digestors and then stored in a concrete lined facility and periodically removed for use on City-owned agricultural land. Methane gas from the anaerobic digestion process is used for building and digester heating. Excess methane is flared off at the plant site.

In addition to domestic wastewater treatment, the White Slough Facility also disposes of industrial wastewater produced primarily by Pacific Coast Producers, a local cannery. See “Service Area and Customers” below. In past years, the annual industrial flow to the White Slough Facility has exceeded 400 million of gallons per year (“mgd”); however, recently industrial flows have decreased to between 100 to 200 mgd due to changes in processing. Most of this flow is received during the period from June through September.

During summer months (*i.e.*, generally during the period from May 1 through September 1), treated domestic wastewater, industrial wastewater, and digested sludge are blended together and applied to 790 acres of the City-owned agricultural land on the site. During the remainder of the year, treated domestic wastewater is discharged to Dredger Cut in the Sacramento-San Joaquin Delta, and industrial wastewater is stored in four ponds located directly north of the main treatment plant site. These ponds have a total surface area of about 41 acres. Treated domestic wastewater is also used by the adjacent Northern California Power Agency power generation facilities for various purposes, including, but not limited to, cooling, and to supply nearby ponds that are used by the Mosquito Abatement District to raise mosquito fish.

The existing collection system, not including the outfall to the treatment plant, consists of approximately 186.5 miles of 4” to 48” sewers constructed of clay, concrete, and PVC plastic materials. Included in this system are six lift stations which serve outlying portions of the City and one industrial waste pumping station. The collection system currently serves over 19,900 dwelling units, 1,400 acres of commercial/industrial development, and 250 acres of schools. Over 50% of the sewers are 6” in diameter. The following is a tabulation of the sewers.

**City of Lodi
Wastewater System
Tabulation of Existing Sewers**

Sewer Size (inches)	Total Feet	Sewer Size (inches)	Total Feet
48	23,848	15	16,923
42	8,479	14	7,340
30	10,3398	12	43,534
24	15,386	10	70,472
21	15,912	8	172,306
18	29,516	6	507,913
16	7,505	4	5,372

Source: City of Lodi.

The domestic wastewater collection system conveys all domestic and commercial flows and limited industrial flows. The industrial wastewater system conveys the waste contributed by major industries, except the local General Mills facility which discharges its pre-treated waste into the domestic system. The wastewater collection system serves all of the developed property within the City limits. The maintenance program for these facilities is accomplished by City crews. This program includes the systematic hydrocleaning, rodding, smoke testing and video inspection of mains throughout the City.

Environmental Compliance

The present discharge requirements for the City’s White Slough Facility are established by the RWQCB which administers and enforces all federal and State of California discharge requirements. The RWQCB administers regulations promulgated by the United States Environmental Protection Agency through the NPDES permits. The City’s NPDES discharge permit No. CA0079243 is subject to renewal every five years and was last renewed in January 2000. The permit renewal process is routine such that the City anticipates the discharge permit will be renewed in due course. In connection with the renewal of the permit in 2005, the City expects to request an increase in the permitted average dry weather flow limit of the White Slough Facility to its 8.5 mgd capacity. The City has reported that the White Slough Facility has been operated in compliance with the permit in all material

respects (though future compliance will require completion of the 2004 Project). See “THE 2004 PROJECT AND THE SYSTEM CAPITAL PLAN” herein.

The City is responsible for satisfying the federal and State-mandated discharge requirements administered by the RWQCB. The requirements include provisions requiring the City to comply with all pretreatment requirements contained in the Federal Water Pollution Control Act. The City has an approved pretreatment program. In general, plant performance has consistently met discharge requirements, and only one instance of noncompliance has been found actionable by the RWQCB.

See also “LITIGATION” herein for a discussion of certain pending environmental litigation involving the City.

Service Area and Customers

The City provides wastewater collection and treatment to substantially all of the population of the City, representing an area of approximately 12.598 square miles in the City, and, presently, the City ordinance does not allow wastewater service outside the City limits. The City accepts septage and winery waste delivered to the White Slough Facility by truck. Fees for this service account for approximately \$250,000 in annual revenues.

The tables below show the number of connections of the System by user type and service charge revenues by class of user.

**City of Lodi
Wastewater System
Number of Connections by User Type
as of June 30**

User Type	Connections				
	1999	2000	2001	2002	2003
Single Family Residential	13,622	13,941	14,228	14,547	14,786
Multiple Family Residential	6,105	6,239	6,428	6,595	7,007
Commercial/Industrial	1,142	1,155	1,161	1,188	1,196
Total All Users	20,869	21,335	21,817	22,330	22,989

Source: City of Lodi.

**City of Lodi
Wastewater System
Proportion of Service Charge Revenues by Class of User
Fiscal Year 2002-03**

User Type	Percentage of Total Annual Service Charge Revenue
Single Family Residential	50.0%
Multiple Family Residential	18.9
Commercial/Industrial	31.1
Total	100.0%

Source: City of Lodi.

The table below shows the five largest users of the System based on service charge revenues for the Fiscal Year 2002-03.

**City of Lodi
Wastewater System
Largest Users by Service Charge Revenues
Fiscal Year 2002-03**

<u>User</u>	<u>Type of Business</u>	<u>Service Charge Revenue</u>	<u>Percentage of Total Annual Service Charge Revenue</u>
Pacific Coast Producers ⁽¹⁾	Cannery/Office Space/Distribution	\$209,782	3.8%
Cottage Bakery	Commercial Bakery/Restaurant	176,846	3.2
General Mills	Manufacturer/Marketer	162,300	3.0
Lodi Unified School District	Public Schools	52,829	1.0
Del Castillo Foods	Tortilla Factory	27,589	0.5
Total		<u>\$629,346</u>	<u>11.5%</u>

⁽¹⁾ Pacific Coast Producers is a private-label fruit and tomato cooperative that supplies the retail and food service industries. The Pacific Coast Producers corporate offices are located within the City. Albertson's, Kroger and Safeway are among its customers.

Source: Lodi Public Works Department.

Wastewater Rates and Charges

The City has the power to establish rates and charges as needed to operate the System. The rates and charges are established by the City Council and are not subject to review or approval by any other agency. The City principally relies on the following charges and fees: service charges, capacity/connection fees and impact mitigation fees.

Service Charges. [The following discussion reflects proposed increases subject to council approval and protest period passage.] The following charges were established for residential, commercial and industrial wastewater service by Resolution No. _____, adopted by the City on [April 27], 2004 and effective May 1, 2004. These recently adopted rate increases reflect a 25% system average rate increase over prior rates. Pursuant to Resolution No. _____, a second system average rate increase of 25% was approved and will be effective July 1, 2005. [In addition, Resolution No. _____ provides for future increases in service charges in an amount up to the percentage increase in the Consumer Price Index for the immediately preceding year, subject to annual City Council action.]

**City of Lodi
Wastewater System
Schedule of Wastewater Service Charges**

	<u>Current Service Charge (effective May 1, 2004)</u>	<u>Increased Service Charge (effective July 1, 2005)</u>
<i>For Residential Users (per month):</i>		
1 Bedroom	\$12.16	\$15.20
2 Bedrooms	16.21	20.26
3 Bedrooms	20.27	25.33
4 Bedrooms	24.32	30.40
5 Bedrooms	28.38	35.46
6 Bedrooms	32.43	40.53
7 Bedrooms	36.48	45.59

	Current Service Charge (effective May 1, 2004)	Increased Service Charge (effective July 1, 2005)
<i>For Commercial/Industrial Users:</i>		
Moderate Strength (annual per Sewage Service Unit (SSU))....	\$194.58	\$ 243.09
High Strength:		
Flow (annual per mg)	936.36	1,170.45
BOD (annual per 1,000 lbs.).....	458.23	572.79
SS (annual per 1,000 lbs.).....	374.58	468.23
Grease Interceptor/Septic Holding Tank Waste within City Limits (per 1,000 gal.).....	143.44	179.30
Septic Holding Tank Waste outside City Limits (per 1,000 gal.).....	304.51	380.64
Disposal to Storm Drain System (per mg).....	150.66	180.33

Capacity/Connection Fees. Capacity/connection fees are one-time only connection charges based on estimated annual usage. The current capacity/connection fees were established for residential, commercial and industrial wastewater service by Resolution No. 97-190, adopted by the City on November 19, 1997 and effective as of the date adopted. The capacity/connection fee for residential (per 2 bedroom home, 1 Sewage Service Unit (SSU), for commercial (per SSU) and for moderate strength industrial (per SSU) is \$2,099. The capacity/connection fee for high strength industrial is \$11,192.96 for flow (per mg), \$4,610.56 for biochemical oxygen demand (BOD) (annual per 1,000 lbs.) and \$2,076.43 for suspended solids (SS) (annual per 1,000 lbs.). Capacity/connection fees are collected at the time a building permit is granted.

Impact Mitigation Fees. Impact mitigation fees are one-time charges designed to recover costs associated with the impact of contemplated future development on existing public facilities and new public facilities and improvements required by new growth. The current impact mitigation fees were established by Resolution No. 2001-242, adopted by the City on October 17, 2001 and effective 60 days thereafter. The current impact mitigation fee is \$544 per acre (or \$108.00 per home assuming five homes per acre). Impact mitigation fees are collected either at the time the building permit is granted or as part of the subdivision map process.

Collections. The City bills for water, wastewater, solid waste and electricity on the same bill. The City has not experienced uncollected wastewater service charge delinquencies exceeding 2% of its annual revenue over the last five Fiscal Years (1998-99 through 2002-03). If a bill is unpaid, the City will terminate electric service to a customer within 90 days of nonpayment after 48 hours notice.

Comparison of Monthly Wastewater Service Charges of Selected Agencies. A comparison of wastewater service charges of selected agencies located in San Joaquin County is set forth below.

**Comparison of Monthly Wastewater Service Charges
(as of April 2004)⁽¹⁾**

Agency	Service Charge⁽²⁾
City of Escalon	\$11.32
Lockeford Community Services District	11.80
City of Ripon	13.82
Woodbridge Sanitary District	14.70
City of Stockton	18.80
Linden CWD	19.70
City of Lodi	20.27
City of Tracy	22.25
City of Lathrop	22.65
City of Manteca	23.48
Country Club Sanitary District	25.30

⁽¹⁾ Except the City which reflects increased rates effective May 1, 2004.

⁽²⁾ For all agencies other than the City, based upon flat monthly rate charged to all single family residential customers. Rate for City reflects rate for three bedroom single family residence.

Source: City of Lodi.

Outstanding Wastewater System Obligations

As of May 1, 2004, the City had outstanding \$9,390,000 principal amount of the 1991 Installment Payments relating to its 1991 Certificates and \$5,000,000 principal amount of the 2003 Installment Payments relating to the 2003 CSCDA Bonds. The 1991 Installment Payments and the 2003 Installments Payments are payable by the City from System Net Revenues on a parity with the Installment Payments relating to the 2004 Certificates. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 CERTIFICATES—Outstanding Parity Obligations” herein. The annual service debt for the 1991 Installment Payments and the 2003 Installment Payments ranges from a high of \$1,190,203 in 2005 to a low \$784,705 in 2026, with a final maturity in 2026.

Planned Capital Improvements

The City anticipates capital improvements to the System will aggregate approximately \$42.2 million over the next five Fiscal Years 2003-04 through 2007-08. Planned capital improvements to the System include, but are not limited to, capital improvements at the White Slough Facility (including the 2004 Project being financed with the proceeds of the 2004 Certificates) and related treatment facilities and the replacement of collection system pipes and appurtenances (including the phase three improvements described under “THE 2004 PROJECT AND THE SYSTEM CAPITAL PLAN” herein). The City also plans to finance these costs through a combination of operating revenues and future borrowing. The City will undertake additional projects to be financed from impact mitigation fees to the extent growth requires and such impact mitigation fees are received. See also “LITIGATION” herein for additional information regarding certain environmental cleanup costs the City may incur.

Financial Information

Investment Policy. The System Revenue Fund, into which all revenues of the System are initially deposited, and the Debt Service Fund, from which the 2004 Certificates are to be paid, are required to be invested in certain Authorized Investments. See “APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein. All funds of the City, however, are invested by the City in accordance with the investment guidelines of the California Government Code (Sections 53601 and 53635) and the City’s Investment Policy, which is presented annually to the City Council for approval. Pursuant to the Investment Policy, the City strives to maintain a level of investment of all idle funds, less required reserves, as near 100% as possible, through daily and projected cash flow

determinations. The City's cash management system is designed to monitor and forecast expenditures and revenue accurately in order to enable the City to invest funds to the fullest extent possible.

Idle cash management and investment transactions are the responsibility of the Finance Director/City Treasurer. The Investment Policy, as adopted by the City Council on October 1, 2003, permits investment in the following: U.S. Treasury obligations (bills, notes and bonds); U.S. Government Agency securities and instrumentalities; bankers acceptances; certificates of deposit; negotiable certificates of deposit; commercial paper; California State Local Agency Investment Fund; passbook deposits; mutual funds; and medium term notes. The Investment Policy provides that safety is given the highest priority, followed by liquidity and yield. Investments are selected to achieve a "market average" rate of return, or the annual rate of return on the one-year U.S. Treasury Bill.

The Investment Policy may be changed at any time at the discretion of the City Council (subject to the State of California law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State of California law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the City with respect to investments will not change. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement and the Installment Purchase Agreement, or other amounts held by the City, could have a material adverse effect on the City's finances.

Financial Statements. Excerpts of the audited General Purpose Financial Statements of the City relating to the System, as of June 30, 2003, are included in Appendix B to this Official Statement. A complete copy of the City's Comprehensive Annual Financial Report may be obtained from the City. The Installment Payments are special obligations of the City payable solely from the System Net Revenues. The General Purpose Financial Statements, including the excerpts contained in Appendix B, have been audited by Macias, Gini & Company LLP, Sacramento, California, independent accountants (the "Independent Accountants") as stated in their report appearing in Appendix B. No review or investigation with respect to subsequent events has been undertaken in connection with such General Purpose Financial Statements by the Independent Accountants.

Historic Operating Results. The following table is a summary of operating results of the System for the five Fiscal Years ending June 30, 1999 through 2003. These results have been derived from the Financial Statements but exclude certain non-cash items and include certain other adjustments, and are qualified in their entirety by reference to such statements, including the notes thereto. The Independent Accountants have not reviewed or audited the summary operating results or any other portion of this Official Statement.

The following table also sets forth debt service coverage ratios with respect to the City's outstanding Parity Obligations. Such coverage ratios have been computed in accordance with the requirements of the Installment Purchase Agreement. Such coverage calculation differs in certain respects from the requirements of the instruments authorizing the outstanding 1991 Certificates and the 2003 CSCDA Bonds.

City of Lodi
Wastewater System
Summary of Historic Operating Results
Fiscal Years 1998-99 through 2002-03

	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
Operating Revenues ⁽¹⁾					
Charges for Services	\$3,047,732	\$3,060,247	\$3,121,526	\$4,149,341	\$5,451,455 ⁽²⁾
Capacity/Connection Fees	887,274	926,374	1,715,357	735,171	1,394,287
Interest Income	260,999	125,313	171,097	53,752	64,042
Rent ⁽³⁾	217,010	155,543	137,396	174,674	237,749
Total Operating Revenues	<u>4,413,015</u>	<u>4,267,477</u>	<u>5,145,376</u>	<u>\$5,112,938</u>	<u>\$7,147,533</u>
Operating Expenses ⁽⁴⁾	<u>2,167,950</u>	<u>2,356,931</u>	<u>3,561,434</u>	<u>3,868,306</u>	<u>\$3,883,467</u>
System Net Revenues	2,245,065	1,910,546	1,583,942	1,244,632	\$3,264,066
Parity Debt Service					
1991 Installment Payments	\$ 803,624	\$ 810,900	\$ 807,420	\$ 803,495	\$ 803,960
2003 Installment Payments	-	-	-	-	-
Total Parity Debt Service	<u>\$ 803,624</u>	<u>\$ 810,900</u>	<u>\$ 807,420</u>	<u>\$ 803,495</u>	<u>\$ 803,960</u>
Debt Service Coverage ⁽⁵⁾	2.79x	2.36x	1.96x	1.55x	4.06x
Net Revenues after Debt Service	1,441,441	1,099,646	776,522	441,137	\$2,460,106
Plus: Non-Operating Revenues (Expenses) ⁽⁶⁾	201,236	186,980	134,504	260,796	369,423
Less: General Fund Transfer ⁽⁷⁾	<u>(789,212)</u>	<u>(790,000)</u>	<u>(774,950)</u>	<u>(939,410)</u>	<u>(496,647)</u>
Revenues Available for Capital/Other Purposes	853,465	496,626	136,076	(237,477) ⁽⁸⁾	\$2,332,882

⁽¹⁾ Excludes impact mitigation fees and certain other one-time fees. Includes septic dumping charges.

⁽²⁾ Reflects additional revenues from increases in rates, including an increase of 35% in rates implemented in two increments, effective January 2002 and July 2002, approved on October 3, 2001.

⁽³⁾ Represents revenues from lease of agricultural land at the White Slough Facility.

⁽⁴⁾ Excludes amounts transferred to City General Fund for in lieu of taxes. Excludes depreciation, capital expenditures and debt service.

⁽⁵⁾ System Net Revenues divided by Total Parity Debt Service.

⁽⁶⁾ Includes impact mitigation fees received from developers.

⁽⁷⁾ General Fund Transfer in lieu of taxes equal to 20% of operating revenues in Fiscal Years 1998-99 through 2001-02, and 12% of operating revenues in Fiscal Year 2002-03. See "Transfers to the General Fund of the City of Lodi" below.

⁽⁸⁾ A portion of the System revenue requirements for Fiscal Year 2001-02 were funded from reserves.

Source: City of Lodi.

Management's Discussion of Operating Results. Financially, the City operates the wastewater utility as a separate enterprise activity within the City government. This structure is essentially the same as for its water and electric utility enterprises. Functionally, the wastewater utility is operated jointly with the water utility by the Water/Wastewater Division within the Department of Public Works. This arrangement is designed by the City to provide for improved efficiency in cross training and utilization of staff and in the purchase and use of equipment and facilities.

The City Council has recognized the need to raise wastewater service charges and other fees as required to provide not only for adequate operations and maintenance resources, but also at levels necessary to fund an ongoing capital infrastructure replacement program. In 2001, the City Council approved a significant rate increase to be implemented in two stages in 2001 and 2002. The increases were specifically approved for implementation of a major collection system replacement program and per City Council direction, the wastewater utility bills show a separate charge for "infrastructure replacement". Similarly, the rate increases adopted in connection with the 2004 Project are being implemented in stages. See "Wastewater Rates and Charges" above.

In 2001, the City completed a Wastewater Treatment Master Plan, which was initiated in 1999. The plan encompassed the then newly adopted 2000 State discharge permit and identified a number of options to meet the

permit requirements, and, considered likely future requirements. The result is that the City has unplanned and undertaken the improvements to the White Slough Wastewater Treatment Facility as described under “THE 2004 PROJECT AND THE SYSTEM CAPITAL PLAN” herein.

Projected Operating Results and Debt Service Coverage. The City’s estimated projected operating results for the System for the Fiscal Years ending June 30, 2004 through 2008 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City’s estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the City’s financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

The following table also sets forth debt service coverage ratios with respect to existing and anticipated Parity Debt. Such coverage ratios have been computed in accordance with the requirements of the Installment Purchase Agreement. Such coverage calculation differs in certain respects from the requirements of the instruments authorizing the outstanding 1991 Certificates and the 2003 CSCDA Bonds.

**City of Lodi
Wastewater System
Projected Operating Results
Fiscal Years 2003-04 through 2007-08**

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Operating Revenues ⁽¹⁾					
Charges for Services ⁽²⁾	\$6,332,378	\$7,615,375	\$9,617,692	\$10,008,732	\$10,415,706
Capacity/Connection Fees	777,000	1,139,403	1,150,797	1,162,305	1,173,928
Interest Income ⁽³⁾	59,029	158,075	164,207	119,851	127,617
Rent ⁽⁴⁾	205,645	205,645	207,701	209,778	211,876
Total Operating Revenues	<u>\$7,374,052</u>	<u>\$9,118,498</u>	<u>\$11,140,398</u>	<u>\$11,500,667</u>	<u>\$11,929,128</u>
Operating Expenses ⁽⁵⁾	<u>4,200,021</u>	<u>4,387,471</u>	<u>4,807,444</u>	<u>4,974,812</u>	<u>5,148,262</u>
System Net Revenues	\$3,174,031	\$4,731,027	\$6,332,954	\$6,525,856	\$6,780,866
Parity Debt Service					
1991 Installment Payments	\$ 808,488	\$ 807,055	\$ 804,798	\$ 806,530	\$ 807,063
2003 Installment Payments	88,888	383,148	379,448	380,698	381,848
2004 Installment Payments ⁽⁶⁾	-	1,025,539	1,176,525	1,151,100	1,118,900
Future Debt Service ⁽⁷⁾	-	-	-	1,377,171	1,377,171
Total Parity Debt Service	<u>897,375</u>	<u>2,215,741</u>	<u>2,360,770</u>	<u>3,715,499</u>	<u>3,684,981</u>
Debt Service Coverage ⁽⁸⁾	3.54x	2.14x	2.68x	1.76x	1.84x
Net Revenues after Debt Service	\$2,276,656	\$2,515,284	\$3,972,184	\$2,810,357	\$3,095,885
Plus: Non-operating Revenues (Expenses)	207,000	220,000	220,000	220,000	220,000
Less: General Fund Transfer ⁽⁹⁾	<u>(755,040)</u>	<u>(759,885)</u>	<u>(837,691)</u>	<u>(865,592)</u>	<u>(900,786)</u>
Revenues Available for Capital/Other Purposes	<u>\$1,728,816</u>	<u>\$1,975,401</u>	<u>\$3,354,493</u>	<u>\$2,164,765</u>	<u>\$2,415,099</u>

- (1) Excludes impact mitigation fees and certain other one-time fees. Includes septic cleaning charges. Assumes a general growth rate of 1.0% per annum.
- (2) Reflects approved rate increases effective May 1, 2004 and July 1, 2005. Also assumes City implements annual increase reflecting increases in the Consumer Price Index assumed to be 3% annually. See "Wastewater Rates and Charges" above.
- (3) Assumes annual interest return of approximately 2.5% per annum.
- (4) Represents revenues from lease of agricultural land at the White Slough Facility.
- (5) Excludes depreciation, capital expenditures and debt service. Assumes a 3.0% annual escalation in Operating Expenses generally, with a 3.25% annual escalation in labor and insurance costs and a 5.0% annual escalation in power costs.
- (6) Assumes \$24,545,000 principal amount of 2004 Certificates at an average interest rate of 4.76%.
- (7) Assumes a future borrowing in 2006 of approximately \$22,165,000 principal amount at an average interest rate of 5.76%.
- (8) System Net Revenues divided by Total Parity Debt Service.
- (9) General Fund Transfer in lieu of taxes assumed to be 12% of operating revenues in 2003-04 and 2004-05, 11% in 2005-06 and 9% thereafter.

Source: City of Lodi.

Transfers to the General Fund of the City of Lodi. Pursuant to budget policy adopted by the City Council, the System transfers to the Lodi General Fund a payment in-lieu of taxes in each Fiscal Year. For Fiscal Years 1998-99 through 2001-02, the transfer was 20% of operating revenues of the System for the immediately preceding Fiscal Year. For the Fiscal Years 2002-03 through 2004-05, the transfer was reduced to 12% of the operating revenues of the System for the immediately preceding Fiscal Year.

CONTINUING DISCLOSURE

The City will covenant pursuant to a Continuing Disclosure Agreement, between the City and the Trustee, to provide certain financial information and operating data relating to the City and the System by not later than six months following the end of the City's Fiscal Year, which Fiscal Year presently ends June 30 (the "Annual Report"), commencing with the Annual Report for the 2003-04 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material, under federal securities law. The Annual Report will be filed by the City

with each nationally recognized municipal securities information repository and with the appropriate State repository, if any (collectively, the “Repositories”). The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board and the Repositories. The specific nature of the information to be contained in the Annual Report and the notices of material events are set forth in “APPENDIX E – PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT” herein. These covenants have been made to assist the Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”). As of the date hereof, the City has never failed to comply in any material respect with any previous undertakings with regard to the provision of annual reports or material events notices as required by the Rule.

THE CORPORATION

The Corporation was incorporated under the Nonprofit Public Benefit Corporation Law of the State of California. The Corporation was organized as a nonprofit corporation for the purpose, among others, of assisting the City in the acquisition, construction and financing of public improvements which are of public benefit to the City. Members of the Lodi City Council serve on the Board of Directors of the Corporation.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The City is of the opinion that the wastewater service and user charges imposed by the City do not exceed the costs the City reasonably bears in providing the wastewater service. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

California Constitution Articles XIII C and XIII D

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and changes.

Article XIID established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City does not currently impose standby charges or assessments for its System.

Article XIID conditions the imposition or increase of any “fee” or “charge” upon their being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIID defines “fee” or “charge” to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIID is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In addition to the procedural requirements of Article XIID, under Article XIID all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIID (related to assessments).
- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

Article XIID provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The City followed the procedural requirements, including the public hearing and majority protest provisions, of Proposition 218 in connection with its recent System rate increases. (See “THE WASTEWATER SYSTEM—Wastewater Rates and Charges” herein). The City believes that its current wastewater charges pledged to the payment of the Installment Payments securing the 2004 Certificates comply in all respects with the requirements of Article XIID and the City expects that any future wastewater charges will comply with Article XIID’s procedural and substantive requirements to the extent applicable thereto.

Article XIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by future initiative, seek to repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. “Assessment,” “fee” and “charge” are not defined

in Article XIIC, although the California Court of Appeal recently held in Bighorn-Desert View Water Agency v. Beringson, 114 Cal.App.4th 1213 (2004), that the initiative power described in Article XIIC applies only to local taxes, assessments, fees and charges governed by Article XIID. No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's wastewater service fees and charges, which are the source of System Net Revenues pledged to the payment of the Installment Payments. However, the City believes that even if the wastewater rates and charges of the City are subject to the initiative power, the electorate of the City would be precluded from reducing wastewater rates and charges in a manner adversely affecting the payment of the Installment Payments by virtue of the "impairments clause" of the United States and California Constitution.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations.

Future Initiatives

Articles XIII A, XIII B, XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest installments of the Installment Payments paid by the City under the Installment Purchase Agreement and received by the Owners of the 2004 Certificates are excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and are exempt from State of California personal income taxes. Special Counsel is of the further opinion that such interest installments of the Installment Payments are not specific preference items for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the 2004 Certificates is less than the amount to be paid at maturity of such 2004 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such 2004 Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest with respect to the 2004 Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2004 Certificates is the first price at which a substantial amount of such maturity of the 2004 Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2004 Certificates accrues daily over the term to maturity of such 2004 Certificates on the basis of constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2004 Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment at maturity) of such 2004 Certificates. Owners of the 2004 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of 2004 Certificates with original issue discount, including the treatment of Owners who do not purchase such 2004 Certificates in the original offering to the public at the first price at which a substantial amount of such 2004 Certificates is sold to the public.

2004 Certificates purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like the Premium Certificates, the interest evidenced by which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an Owner basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Owner.

Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest evidenced by obligations such as the 2004 Certificates. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that the interest installments of the Installment Payments paid by the City under the Installment Purchase Agreement and received by the Owners of the 2004 Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in the interest evidenced by the 2004 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the 2004 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the 2004 Certificates may adversely affect the value of, or the tax status of interest evidenced by, the 2004 Certificates.

Certain requirements and procedures contained or referred to in the Installment Purchase Agreement, the Trust Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2004 Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any 2004 Certificate or the interest installment of any Installment Payment if any such change occurs or action is taken or omitted upon the advice or approval of special counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Counsel is of the opinion that the interest installments of the Installment Payments paid by the City under the Installment Purchase Agreement and received by the Owners of the 2004 Certificates are excluded from gross income for federal income tax purposes and are exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of the interest with respect to, the 2004 Certificates may otherwise affect an Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Owner or the Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest evidenced by the 2004 Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or the marketability of, the 2004 Certificates. Prospective purchasers of the 2004 Certificates should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the 2004 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the 2004 Certificates ends with the execution and delivery of the 2004 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the City or the Owners regarding the tax-exempt status of the 2004 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2004 Certificates for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the 2004 Certificates, and may cause the City or the Owners to incur significant expense.

LITIGATION

The City primarily relies upon groundwater for providing potable water to its residents. The City, at some of its wellheads, filters water to remove the contaminant dibromochloropropane (“DBCP”) prior to delivery of water into the City’s water system. The City first detected the chemicals Tetrachloroethylene (“PCE” or “PERC”) and Trichloroethylene (“TCE”) in 1989. It appears that this contamination was caused by releases into the environment over many decades by dozens of drycleaners and other businesses in the City. In 1996, the City entered into negotiations with the California Environmental Protection Agency’s Department of Toxic Substances Control (“DTSC”) to clarify their mutual roles and responsibilities for responding to the contamination. Those negotiations culminated on May 6, 1997 when the City and DTSC entered into a Comprehensive Joint Cooperative Agreement (the “Cooperative Agreement”). Under the Cooperative Agreement, the City was designated as the lead enforcement entity for the City site as defined in the Cooperative Agreement and was charged with the responsibility, in cooperation with DTSC, to diligently prosecute appropriate environmental enforcement actions against responsible parties to compel them to investigate and remediate the contamination in order to protect the City’s groundwater supply. Subsequent to the execution of the Cooperative Agreement, the City enacted the comprehensive Municipal Environmental Response & Liability Ordinance (“MERLO”) to support the City’s lead enforcement role.

To that end, the City filed several enforcement actions. One, entitled “The People of the State of California and the City of Lodi v. M&P Investments, et. al. was filed on November 2, 2000 and seeks the abatement of a public nuisance and a nuisance per se and recovery of the City’s cost of responding to that nuisance. This case was filed in the U.S. District Court for the Eastern District of California and has been assigned the Case No. Civs-00-2441 FCD JFM. The City has been prosecuting this action since the filing. Various counterclaims and cross-claims have been filed including some claims against the City for its alleged contribution to the contamination. There is no trial date set as of this time. The parties are pursuing mediation in an effort to reach a compromise settlement.

Since the City’s enforcement actions were filed, several events and judicial decisions have impacted the City’s initial litigation strategy. First, the City’s authority to serve as lead enforcement agency under the Cooperative Agreement and MERLO have been judicially questioned in separate actions filed by insurance companies for certain of the defendants in the above referenced matter. In one of these matters, the City suffered an adverse judgement and the court ordered the City to pay damages of approximately \$400,000 and attorney’s fees. The City is appealing this decision. In another matter, the City received a favorable judgment and an award of attorney’s fees of approximately \$471,000. This matter is also being appealed. In addition, it has been judicially determined that the City itself is a potentially responsible party for the contamination due to the alleged release of certain of the contamination sources into the City’s groundwater by the City’s Wastewater System. As such, the City may be exposed to liability for the clean-up as more fully described below.

The ultimate liability is shared among the potentially responsible parties. The City expects that since the majority of the allegations against it involve claims of nonfeasance, rather than malfeasance (i.e. the City did not actively pollute, it is only alleged to have not prevented the polluters from discharging the contamination into the City sewers) that the City will bear a proportionately smaller amount of the liability. In the event that any potentially responsible parties have inadequate assets to cover their assigned share, those liabilities may be re-allocated among the remaining parties. Moreover, the City has insurance assets which exceed \$100,000,000. Such insurance only covers liabilities caused by sudden and accidental pollution claims. An action is currently pending in the Superior Court for the City and County of San Francisco among the City and its insurers whereby said insurers are seeking a declaration that their policies do not provide coverage for environmental contamination. This action has been stayed pending resolution of the environmental claims against the City. In addition, DTSC and the Central Valley Regional Water Quality Control Board have released draft orders that require the City and the alleged responsible parties to jointly investigate and remediate contamination within the City. Both public agencies have expressed willingness to remain flexible in their requirements to allow the City and the potentially responsible parties to pursue funding and allocation of responsibility through the mediation process.

Due to the complexities of this litigation, and the uncertainties regarding the total clean up costs and potential recoveries from responsible parties, it is difficult for the City to estimate its ultimate financial exposure.

The scope of the environmental problem is not yet fully characterized. It currently appears that there are five different areas of contamination. The most severe area of contamination is the Central Plume. Current estimates of the cost of cleanup of that plume are approximately \$20 million. The remaining sites are each expected to cost considerably less, although they have yet been adequately characterized.

To finance its environmental abatement litigation program (the "Program"), the City and the Lodi Public Improvement Corporation (the "Corporation") entered into a financing arrangement with Lehman Brothers Inc. ("Lehman") in June 2000 entitled the Lodi Financing Corporation Environmental Abatement Program Variable Rate Certificates of Participation ("COPs"). Under these financing documents (the "Financing Documents"), Lehman has invested in the City's environmental abatement litigation program (the "Program"), and as security for repayment of the COPs, the City granted to Lehman a first lien on all revenues received under the Program (the "Program Receipts"). Lehman has advanced \$15,625,000, which is repayable with interest accruing at the rate of "LIBOR" plus 20% per annum, adjusted quarterly and compounded annually.

If the City recovers money from other responsible parties or from insurers that is declared to be Program Receipts, the Financing Documents state that the City must repay to Lehman the outstanding principal and interest from the Program Receipts. Lehman recently contended that the City, by responding to an order in Case No. Civs-00-2441 FCD JFM to provide information to the Court regarding Lehman's role in the action, breached its obligations under the Financing Documents and that, pursuant to the terms of the Financing Documents, Lehman has full recourse to all City assets. The City denies and disputes this contention. The City's maximum exposure would be for the principal and interest set forth above plus (1) whatever interest will accrue between now and resolution of the dispute and (2) whatever litigation costs and attorneys fees may be awarded to Lehman. As a result of this dispute with Lehman, the City and the Corporation filed an action for declaratory relief against Lehman and the trustee under the Financing Documents in the United States District Court for the Eastern District of California. Soon thereafter, Lehman filed an action against the City and the Corporation in San Joaquin County Superior Court alleging, among other things, breach of contract and fraud by the City under the Financing Documents.

The City is also in a dispute with its former outside counsel, Envision Law Group ("Envision"), for the City of Lodi v. M&P Investments, et. al. litigation. Envision contends that the City owes it \$6.8 million dollars in accrued but unpaid legal fees. Envision has also issued invoices for the last several months of its services in excess of \$1.5 million. These invoices are subject to a process for reimbursement by one of the City's insurance carriers. That process has been put on hold while the City audits Envision's invoices. The City has been unable to confirm these amounts. The representation contract does call for Envision to accrue (without billing) some amount of fees. However, those accrued but unpaid fees are contractually contingent upon the outcome of the litigation. The City is assessing its obligations, if any, at this time. Even if it is determined that the City owes these fees, a portion of that obligation may be met by one of the City's insurance carriers, which have to date paid some of the firm's fees pursuant to its duty to defend. However, the reimbursable fees only amount to those dollars spent defending the City from cross-claims, not those fees incurred in pursuing the City's claims. The City has been unable to ascertain at this time what portion of the claim is attributable to its insurance carrier. The City has retained an outside law firm to assess the bills in question. The ultimate liability of this matter cannot be determined at this time.

To the knowledge of the City, there is no controversy or litigation of any nature now pending or threatened restraining or enjoining the execution and delivery of the 2004 Certificates or in any way contesting or affecting the validity of the 2004 Certificates or any proceedings of the City or the Corporation taken with respect to the execution and delivery thereof.

APPROVAL OF LEGALITY

The execution and delivery of the 2004 Certificates is subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, substantially in the form set forth as Appendix F. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Sidley Austin Brown & Wood LLP, Los Angeles, California, and for the City by the Interim City Attorney of the City.

RATINGS

Standard & Poor's Ratings Group ("S&P"), and Fitch Ratings ("Fitch") are expected to assign the 2004 Certificates the long-term ratings of "_____" and "_____" respectively[, upon the delivery by the Insurer of a policy insuring the payment of the principal and interest evidenced by the 2004 Certificates when due]. The ratings reflect only the respective views of the rating agencies, and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Standard & Poor's, 55 Water Street, 38th Floor, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. The City [and the Insurer] furnished to the rating agencies certain information and materials concerning the 2004 Certificates and themselves. Generally, rating agencies base their ratings on information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or either of them, if, in their respective judgments, circumstances so warrant. The City undertakes no responsibility to oppose any such revisions or withdrawal. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the 2004 Certificates.

FINANCIAL ADVISOR

Public Financial Management Inc. (the "Financial Advisor") has assisted the City with various matters relating to the planning, structuring and delivery of the 2004 Certificates. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the 2004 Certificates.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the 2004 Certificates at a price of \$_____ (representing the aggregate principal amount of the 2004 Certificates plus \$_____ original issue premium and less \$_____ Underwriter's discount). The Purchase Contract for the 2004 Certificates provides that the Underwriter will purchase all the 2004 Certificates, if any are purchased. The 2004 Certificates may be offered and sold by the Underwriter to certain dealers and others at prices lower than the public offering price stated on the inside cover page of this Official Statement, and such public offering price may be changed, from time to time, by the Underwriter.

EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF LODI, CALIFORNIA

By: _____
City Manager

THE CITY OF LODI

The 2004 Certificates are not secured by the faith and credit or the taxing power of the City. The economic and financial data regarding the City of Lodi and the County of San Joaquin set forth in this section are included for information purposes only, to give a more complete description of the service area of the City's System.

General

The City of Lodi, California ("Lodi" or the "City") was incorporated as a General Law City on December 6, 1906. The City is located in the San Joaquin Valley between Stockton, 2 miles to the south, and Sacramento, 35 miles to the north, and adjacent to U.S. Highway 99. The City is located on the main line of the Southern Pacific Railroad and is within five miles of Interstate 5. The City population is 60,500 (as of January 1, 2003) and is contained in an area of approximately 12 square miles. The City has grown steadily since incorporation in 1906 and is projected to grow to 70,500 people by the year 2007. The City's growth is provided for in both the general plan and the City's growth control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

The City provides a wide range of municipal services, including public safety (police, fire and graffiti abatement), public utilities services (electric, water and sewer), transportation services (streets, flood control and transit), leisure, cultural and social services (parks and recreation, library, and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

The City has a strong and broad based agricultural industry with national and industrial markets for its commodities and products. Wines, processed foods, nuts, fruit and milk are major commodities of the Lodi area and provide the basic material for food processing and packaging. These commodities support the operations of General Mills, Guild Winery and Pacific Coast Producers, among other companies in the business of processing local agricultural commodities.

In addition, the City has a wide range of small, financially sound businesses. These companies range in size from 10 to 150 employees and produce a wide variety of products, services and commodities.

Recently, there has been an increase in industrial and residential development within the City. This new development, combined with the growing strength of the wine/grape industry, is a positive economic indicator for the City. Recently, several industries moved to the City. These industries collectively have created 850 new jobs.

Municipal Government

City Council. All powers of the City are vested in the City Council which is empowered to perform all duties of and obligations of the City as imposed by State law. The City has a five-member City Council comprised of members elected at large. Each council member is elected for four years with staggering terms.

Biographies of the members of the City Council are set forth below:

LARRY D. HANSEN, MAYOR, was elected to the Lodi City Council in November 2002. Mr. Hansen is a United States Navy veteran and obtained his Master of Public Administration degree in 1993 from California State University, Stanislaus. He is also a graduate of the FBI National Academy and the California Command College and holds a lifetime vocational teaching credential. Mr. Hansen has had a 30-year career with the City of Lodi Police Department. He was hired as a police officer in 1970 and was appointed as the Chief of Police in May 1993, from which he retired in July 2000. In his tenure as Chief, the crime rate was reduced to its lowest level in a decade and many programs were implemented that saved the City time and money.

JOHN BECKMAN, MAYOR PRO TEMPORE, was elected to the Lodi City Council in November 2002. Mr. Beckman received his Juris Doctor and teaches at Humphrey's School of Law. In addition, Mr. Beckman served as the legislative liaison for former Assembly Member, Anthony Pescetti, and managed the assemblyman's Lodi headquarters. His responsibility as the liaison was to ensure the needs and concerns of the City's citizens were heard and addressed. Mr. Beckman also served on the Lodi Planning Commission since June of 2000.

SUSAN HITCHCOCK, COUNCIL MEMBER, was elected to the Lodi City Council in November of 1998 and re-elected in 2002. Ms. Hitchcock received a Bachelor of Science in Business Administration from California State University at Sacramento in 1979 and a teaching credential in 1991. She also received a Masters of Arts in School Administration and an Administrative Services credential from University of the Pacific in 1997. Ms. Hitchcock worked as a commercial loan officer for eight years before becoming involved in volunteer activities and local government. She spent a year on the San Joaquin County Grand Jury and received an appointment to the City of Lodi Planning Commission in 1982, where she served until 1995. She has been employed by the Lodi Unified School District since 1991 and is currently the Principal of Clairmont Elementary School.

EMILY HOWARD, COUNCIL MEMBER, was elected to the Lodi City Council in November of 2000. Mrs. Howard received a Bachelor of Arts in Sports Medicine from the University of the Pacific in 1992. In 1996, she completed the Physical Therapist Assistant AA program at De Anza College and passed the California State Licensing Examination. Mrs. Howard worked with Lodi Memorial Hospital for over five years, specializing in the Rehabilitation Services Department.

KEITH LAND, COUNCIL MEMBER, was elected to the Lodi City Council in 1996 and has previously served as Mayor and Mayor Pro Tempore of the City. He enlisted in the U.S. Air Force in 1969 and received an honorable discharge in 1973. He received an Associate of Arts degree from Delta College in 1975 and graduated from LUTC in 1977. Mr. Land owned and operated Land Insurance Services for 25 years in Lodi. Mr. Land serves as Chairman of the San Joaquin County Parks and Recreation Commission, Vice Chair of the San Joaquin County Housing Authority, Commission Member for the Local Area Formation Commission, and the Northern California Power Agency. Mr. Land is currently employed as the Community Development Officer for Farmers and Merchants Bank and also serves as the President for Lodi House.

Population

The following chart indicates the growth in the population of the City since 1994.

**CITY OF LODI
POPULATION
For Years 1994 through 2003**

Year (as of January 1)	Population
1994	53,042
1995	53,575
1996	54,432
1997	55,042
1998	55,681
1999	56,926
2000	58,600
2001	58,953
2002	59,431
2003	60,500

Source: State of California, Department of Finance.

Employment

Employment in the City was 27,720 in 1999 and 30,230 in 2003, representing a 9.0% increase over the five-year period. The unemployment rate ranged from 6.5% in 1999 to 7.5% in 2003. Statewide unemployment rates were 5.2% in 1999 and 6.7% in 2003.

CITY OF LODI EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE Averages for each of the Calendar Years 1999-2003

	1999	2000	2001	2002	2003
Employment	27,720	28,680	29,140	29,770	30,230
Unemployment	1,920	1,990	2,010	2,390	2,440
Civilian Labor Force	29,640	30,670	31,150	32,160	32,670
Unemployment Rate	6.5%	6.5%	6.4%	7.4%	7.5%
State Unemployment Rate	5.2%	4.9%	5.3%	6.7%	6.7%

Source: State of California, Employment Development Department.

Major Employers

There are several manufacturing plants in the community area with a wide variety of products: cereals, food mixes, wines, rubber products, steel framing and industrial shelving, foundry items, recreational vehicle components, electronic substrates, and plastic piping and injection molded products. In addition, the City has a number of small businesses located within the City. The main businesses in the City, however, are food processes and plastics.

The largest employers in Lodi as of June 30, 2003 are as follows:

CITY OF LODI LARGEST EMPLOYERS

Employer	Business	Number of Employees
Lodi Unified School District	Education	2,800
Lodi Memorial Hospital	Health Care	1,045
General Mills	Cereals and Food Mixes	550
Pacific Coast Producers	Can Manufacture and Cannery	500
City of Lodi	Government	457
Valley Industries	Trailer Hitches	335
Wal-Mart	Retail – General Merchant	330
Target	Retail – General Merchant	200
Farmers and Merchants Bank	Banking	162
CertainTeed	PVC Pipe Manufacturer	113

Source: City of Lodi Community Development Department.

Building Permit Activity

The following table shows the value of building permits issued in the City between 1998 and 2002.

CITY OF LODI
BUILDING PERMIT VALUATION
for Calendar Years 1998 through 2002

	1998	1999	2000	2001	2002
Residential Valuation (in thousands)					
Single Family	\$37,313	\$36,972	\$46,499	\$56,964	\$63,364
Multifamily	583	1,179	308	585	346
TOTAL	\$37,896	\$38,151	\$46,808	\$57,549	\$63,710
New Dwelling Units					
Single Family	234	239	300	319	314
Multiple Family	6	8	2	4	2
TOTAL	240	247	302	323	316

⁽¹⁾ Most recent information available.

Source: Economic Sciences Corporation (1998-2001) and Construction Industry Research Board (2002).

Taxable Sales

The following table indicates taxable transactions in the City by type of business during the calendar years 1998 through 2002.

CITY OF LODI
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
for Calendar Years 1998 through 2002⁽¹⁾
(in Thousands of Dollars)

	1998	1999	2000	2001	2002 ⁽²⁾
Apparel Stores	\$ 5,020	\$ 4,778	\$ 4,702	\$ 5,505	\$ 5,489
General Merchandise	111,930	120,952	132,747	145,383	154,920
Food Stores	34,344	37,328	42,600	43,871	43,690
Eating & Drinking Places	46,316	49,803	52,952	59,716	66,043
Home Furn. & Appliances	17,319	22,254	18,055	16,674	18,911
Bldg. Mat. & Farm Impl.	32,424	39,369	45,722	43,680	40,757
Auto Dlrs. & Auto Suppl.	106,531	123,667	137,830	170,010	186,065
Service Stations	29,203	36,491	45,675	44,260	43,248
Other Retail Stores	45,689	47,022	49,862	50,456	51,587
Retail Stores Total	428,856	481,664	530,145	579,555	610,710
All Other Outlets	133,453	143,207	153,314	148,850	131,556
TOTAL ALL OUTLETS	\$562,309	\$624,871	\$683,459	\$728,405	\$742,266

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ Most recent information available.

Source: California State Board of Equalization

Income

The following table, based on data reported in the annual publication "Survey of Buying Power" published by Sales and Marketing Management, summarizes the total EBI and the median household EBI for the City, the County, the State and the nation for the years 1998 through 2002.

TOTAL EFFECTIVE BUYING INCOME
(in Thousands)

Year	City of Lodi	County of San Joaquin	State of California	United States
1998	855,257	7,245,919	551,999,317	4,621,491,730
1999	915,963	7,767,125	590,376,663	4,877,786,658
2000	928,686	8,486,929	652,190,282	5,230,824,904
2001	912,391	8,194,681	650,521,407	5,303,481,498
2002 ⁽¹⁾	922,890	8,665,983	647,879,427	5,340,682,818

⁽¹⁾ Most recent information available.
Source: "Survey of Buying Power," Sales & Marketing Management.

The following table compares the median household effective buying income for the City, the County, the State and the nation.

MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

Year	City of Lodi	County of San Joaquin	State of California	United States
1998	32,807	32,720	37,091	35,377
1999	33,548	34,431	39,492	37,233
2000	35,391	37,496	44,464	39,129
2001	37,070	37,158	43,532	38,365
2002 ⁽¹⁾	35,315	37,577	42,484	38,035

⁽¹⁾ Most recent information available.
Source: "Survey of Buying Power," Sales & Marketing Management.

Agriculture

Lodi is a worldwide agricultural shipping center for the San Joaquin Valley. The surrounding prime agricultural land is a major producer of wine grapes. The following table shows agriculture production in the County from 1998 through 2002.

COUNTY OF SAN JOAQUIN
AGRICULTURAL PRODUCTION
1998 to 2002

	1998	1999	2000	2001	2002 ⁽¹⁾
Field Crops	\$ 149,688,000	\$ 140,272,000	\$ 134,310,000	\$ 150,516,000	\$ 154,114,000
Seed Crops	9,584,000	11,668,000	7,662,000	7,778,000	7,961,000
Fruit and Nut Crops	500,049,000	576,830,000	596,311,000	546,935,000	517,295,000
Vegetable Crops	240,119,000	230,392,000	226,708,000	226,252,000	246,984,000
Nursery Products	74,115,000	81,937,000	88,257,000	99,224,000	119,072,000
Apiary Products	5,049,000	6,354,000	7,210,000	7,668,000	8,791,000
Livestock and Poultry	37,499,000	36,976,000	41,578,000	39,907,000	37,280,000
Livestock and Poultry Products	294,985,000	269,780,000	246,593,000	310,027,000	252,311,000
Total	\$1,311,088,000	\$1,354,209,000	\$1,348,629,000	\$1,388,307,000	\$1,343,808,000

⁽¹⁾ Most recent information available.
Source: San Joaquin Office of the Agricultural Commissioner.

Community Facilities

The City has a central library, one community center, 25 parks and five specific use facilities, covering 263 developed areas and 110 undeveloped areas, and 16 playgrounds. Lodi Lake Park is connected to the Mokelumne River and features boating, fishing, beach swimming, boat rentals, nature walks, group picnic sites, an RV park and the Discovery Nature Center. Micke Grove Park, a San Joaquin County park, is located between Lodi and Stockton. The park is home to a Japanese garden, the San Joaquin Historical Museum, rides, picnic areas, and a five acre zoo featuring mammals, birds, reptiles and vertebrates.

Community recreation programs cover a wide range of interests and activities including youth and adult sports and special interest classes, youth-at-risk programs, aquatics, special events, camps/clinics and tournaments.

Lodi Memorial Hospital offers a 181-bed, non-profit, independent, acute-care hospital to the residents of the City. Its mission is to provide quality medical care, education and support services to the community. Two hospital campuses and six satellite clinics are used to provide a variety of inpatient, outpatient, urgent, emergency and primary care services.

Housing

The City of Lodi housing market offers both older neighborhoods and newer executive developments. In 2003, the average price for residential property was \$220,900, and the median price was \$208,300.

Education

The Lodi Unified School District provides K-12 and special education programs. The area also is served by several private and parochial schools. The University of the Pacific, San Joaquin Delta Community College, California State University-Stanislaus/Turlock/Stockton Center, and the University of San Francisco satellite center are all within a 20 minute drive of the City. The University of California-Davis, California State University-Sacramento and the University of Southern California satellite center are within an hour's drive from the City.

Transportation

The City is served by interstate highway 5 and state highways 12 and 99 and is located on the main line of the Southern Pacific Railroad. A deep water seaport and an airport are located approximately 15 miles south. Air service is available at the Stockton Metropolitan Airport just south of the City.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of May 1, 2004 is shown below.

**CITY OF LODI
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
as of May 1, 2004**

2003-04 Assessed Valuation: \$3,686,226,417

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 05/01/04</u>
Lodi Unified School District	40.584%	\$19,695,415
City of Lodi 1915 Act Bonds (Estimated)	100.	1,135,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$20,830,415
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Joaquin County Certificates of Participation	10.224%	\$15,136,121
San Joaquin Delta Community College District Certificates of Participation	9.310	905,863
Lodi Unified School District Certificates of Participation	40.584	6,487,352
City of Lodi Certificates of Participation	100.	25,530,000⁽¹⁾
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$48,059,336
COMBINED TOTAL DEBT		\$68,889,751⁽²⁾

⁽¹⁾ Excludes revenue issue to be sold.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Combined Direct Debt (\$25,530,000).....	69% .
Total Overlapping Tax and Assessment Debt.....	57% .
Combined Total Debt.....	87% .

STATE SCHOOL BUILDING AID REPAYABLE AS OF 06/30/03: \$11,990

Source: California Municipal Statistics, Inc.

Assessed Valuation and Tax Collections

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and real property having a tax lien that is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property of the unsecured roll, and an additional penalty of 1.5% per month begins to accrue commencing on November 1 of the Fiscal Year. Collection of delinquent unsecured taxes is the responsibility of the County of San Joaquin using the several means legally available to it.

In 1993, the City made an agreement with San Joaquin County to participate the Teeter Plan pursuant to provisions of Sections 4701-4717 of the California Revenue and Taxation Code. The Teeter Plan is an alternative method of apportioning property tax money. Pursuant to those sections the accounts of all political subdivisions that levy taxes on the County tax rolls are credited with 100% of their respective tax levies regardless of actual payments

and delinquencies. The cities covered under the plan receive 95% of the property taxes in advance from the County and the 5% remaining after reconciling the cities' balances at June 30. As part of the agreement, the County keeps the penalties and interest on the delinquent taxes.

**CITY OF LODI
ASSESSSED VALUATIONS
For Fiscal Years 1999 through 2003
(In thousands)**

Fiscal Year	Land	Improvements	Personal Property	Total	Less Exemptions	Net Assessed Value
1998-99	\$756,166	\$1,748,387	\$220,240	\$2,724,793	\$179,835	\$2,544,958
1999-00	787,249	1,847,800	239,118	2,874,167	183,294	2,690,873
2000-01	832,788	1,982,668	245,269	3,060,725	185,473	2,875,252
2001-02	889,262	2,164,121	245,611	3,298,994	190,252	3,108,742
2002-03	960,166	2,366,887	265,339	3,592,392	200,957	3,391,435

Source: City of Lodi audited financial statements.

The following table shows the City's secured property tax charges and delinquencies.

**CITY OF LODI
SECURED PROPERTY TAX COLLECTIONS
For Fiscal Years 1993 through 2003
(In thousands)**

Fiscal Year	Total Tax Levy	Current Year's Tax Collections	Percent of Collections to Tax Levy	Delinquent Tax Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1993	\$4,375	\$3,809	\$ 87.1	\$ 90	\$3,899	89.1%
1994	3,639	3,461	95.1	624	4,085	112.3
1995	3,670	3,516	95.8	9	3,525	96.0
1996	3,781	3,615	95.6	-	3,615	95.6
1997	3,827	3,682	96.2	-	3,682	96.2
1998	4,444	4,433	99.8	-	4,433	99.8
1999	4,653	4,578	98.4	-	4,578	98.4
2000	5,056	4,917	97.3	-	4,917	97.3
2001	5,182	5,118	98.8	-	5,118	98.8
2002	5,757	5,640	98.0	-	5,640	98.0
2003	5,832	5,408	92.7	-	5,408	92.7

Source: City of Lodi audited financial statements.

Ten Largest Locally Secured Taxpayers

The following table shows the ten largest locally secured taxpayers of the City for the Fiscal Year ended June 30, 2003.

**CITY OF LODI
TEN LARGEST LOCALLY SECURED TAXPAYERS
Fiscal Year Ended June 30, 2003**

<u>Name</u>	<u>Assessed Valuation</u>
1. General Mills Cereals Prop LLC	\$177,786,543
2. Lodi Memorial Hospital	65,063,182
3. Pacific Coast Producers	47,421,529
4. Pacific Coast Producers Corp.	31,718,276
5. Certainteed Corp.	18,830,099
6. Lodi 2000 Distribution Trust	17,245,650
7. Interlake Material Handling Inc.	14,400,942
8. Dart Container Corporation	12,604,299
9. Panattoni, Carl D Et Al	12,331,031
10. Sylvan Fountains Ltd PTP	<u>11,200,982</u>
TOTAL	<u>\$408,602,533</u>

Source: San Joaquin County Assessor's Office.

These ten largest locally secured taxpayers represent approximately 12% of the City's assessed valuation.

**EXCERPTS OF AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002**

BOOK-ENTRY ONLY SYSTEM**General**

The 2004 Certificates will be delivered in book-entry only form. DTC will act as securities depository for the 2004 Certificates. The 2004 Certificates will be issued as fully-registered certificates registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered securities certificate will be delivered for each maturity of the 2004 Certificates, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2004 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004 Certificates on DTC's records. The ownership interest of each actual purchaser of each 2004 Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2004 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2004 Certificates, except in the event that use of the book-entry system for the 2004 Certificates is discontinued.

To facilitate subsequent transfers, all 2004 Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of 2004 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2004 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by

arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. **The City, the Corporation and the Trustee will not have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the 2004 Certificates.**

Prepayment notices shall be sent to DTC. If less than all of the 2004 Certificates within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2004 Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC will mail an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2004 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments with respect to the 2004 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owner will be governed by standing instructions and customer practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not of DTC, the Trustee, the Corporation or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the City, the Corporation or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2004 Certificates at any time by giving reasonable notice to the City, the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2004 Certificates are required to be printed and delivered as described in the Indenture.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

The City, the Corporation and the Trustee cannot and do not give any assurance that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the 2004 Certificates paid to DTC or its nominee as the registered owner, or any prepayment or other notices, to the Beneficial Owner, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City, the Corporation and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2004 Certificates or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interest in the 2004 Certificates, payment of principal, premium, if any, interest and other payments on the 2004 Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such 2004 Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 2004 Certificates or (b) the City determines to remove DTC from its functions as a depository, DTC's role as securities depository for the 2004 Certificates and use of the book-entry system will be discontinued. If the City fails to select a qualified securities depository to replace DTC, the City will cause the Trustee to execute and deliver new 2004 Certificates in fully registered form in such denominations and numbered in the manner determined by the Trustee and registered in the names of such persons as are requested in a written request of the City. The Trustee shall not be required to deliver such new 2004 Certificates within a period of less than 60 days from the date of receipt of such written request of the City. Upon such registration, such persons in whose names the 2004 Certificates are registered will become the registered owners of the 2004 Certificates for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) 2004 Certificates may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of 2004 Certificates of the same maturity of other authorized denominations; (b) 2004 Certificates may be transferred on the registration books maintained by the Trustee under the Trust Agreement for such purpose upon the surrender thereof accompanied by a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of 2004 Certificates, the Trustee shall require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or registration of transfer; (d) no transfer or exchange of 2004 Certificates shall be required to be made during the period commencing on the date 15 days preceding the selection of 2004 Certificates for prepayment and ending on the date of mailing of such notice, or of any 2004 Certificate that has been selected for prepayment in whole or in part, from and after the date of mailing of notice of such prepayment; (e) all interest payments on the 2004 Certificates will be made by check mailed by first-class mail on the interest payment dates therefor as provided in the Trust Agreement to the person appearing on the registration books maintained by the Trustee, or upon written request at least three business days prior to the applicable Record Date, to an Owner of 2004 Certificates aggregating not less than \$1,000,000 in principal amount, by wire transfer in immediately available funds to an account maintained in the United States; and (f) all payments of principal and any premium on the 2004 Certificates, will be made upon surrender thereof at the corporate trust office of the Trustee.

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

APPENDIX H

DEBT SERVICE REQUIREMENTS ON ALL PARITY DEBT

Period Ending	Existing Parity Debt Service ⁽¹⁾			2004 Certificates			Total Parity Debt Service
	Principal	Interest	Debt Service	Principal	Interest	Debt Service	
6/30/2004	\$ 175,000	\$ 722,375	\$ 897,375			\$ —	
6/30/2005	370,000	820,203	1,190,203				
6/30/2006	380,000	804,245	1,184,245				
6/30/2007	400,000	787,228	1,187,228				
6/30/2008	420,000	768,910	1,188,910				
6/30/2009	435,000	749,300	1,184,300				
6/30/2010	460,000	727,970	1,187,970				
6/30/2011	480,000	704,043	1,184,043				
6/30/2012	505,000	678,060	1,183,060				
6/30/2013	535,000	649,913	1,184,913				
6/30/2014	555,000	619,828	1,174,828				
6/30/2015	590,000	588,223	1,178,223				
6/30/2016	620,000	553,798	1,173,798				
6/30/2017	660,000	517,048	1,177,048				
6/30/2018	695,000	478,410	1,173,410				
6/30/2019	740,000	436,135	1,176,135				
6/30/2020	780,000	390,188	1,170,188				
6/30/2021	830,000	341,086	1,171,086				
6/30/2022	880,000	288,478	1,168,478				
6/30/2023	930,000	232,736	1,162,736				
6/30/2024	990,000	173,564	1,163,564				
6/30/2025	—	—	—				
Total	\$12,430,000	\$12,031,737	\$24,461,737				

⁽¹⁾ Includes 1991 Installment Payments and 2003 Installment Payments.

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Lodi, California (the "City") and Union Bank of California, N.A., as trustee (the "Trustee"), in connection with the execution and delivery of the City of Lodi Wastewater System Revenue Certificates of Participation, 2004 Series A in the aggregate principal amount of \$_____ (the "2004 Certificates"). The 2004 Certificates are being executed and delivered pursuant to a Trust Agreement dated as of May 1, 2004 (the "Trust Agreement"), by and between the Lodi Public Improvement Corporation (the "Corporation") and the Trustee. The City and the Trustee hereby covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Trustee for the benefit of the Owners and Beneficial Owners of the 2004 Certificates and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any 2004 Certificates (including persons holding 2004 Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2004 Certificates for federal income tax purposes.

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

"Fiscal Year" shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

"Owner" shall mean either the registered owners of the 2004 Certificates, or, if the 2004 Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The internet address listing the National Repositories is set forth on Exhibit A.

"Participating Underwriter" shall mean any of the original underwriters of the 2004 Certificates required to comply with the Rule in connection with offering of the 2004 Certificates.

"Repository" shall mean each National Repository and each State Repository, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 210 days following the end of the City’s Fiscal Year, commencing with the report for the 2003-04 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year changes for the City, the City shall give notice of such change in the manner provided under Section 5 hereof.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide its Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall notify the City of such failure to receive the Annual Report. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached hereto as Exhibit B.

(d) The Dissemination Agent shall:

(i) determine prior to the date for providing the Annual Report for such year the name and address of each National Repository and each State Repository, if any; and

(ii) file a report with the City (and if the Dissemination Agent is not the Trustee, the Trustee) certifying, to the extent it can confirm the same, that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided. The Dissemination Agent shall have no responsibility for the content of any Annual Report.

SECTION 4. Content of Annual Reports.

(a) The City's Annual Report shall contain or include by reference the following:

(i) The audited financial statements of the City for the most recently completed Fiscal Year, prepared in accordance with generally accepted accounting principles for governmental enterprises as prescribed from time to time by any regulatory body with jurisdiction over the City and by the Governmental Accounting Standards Board;

(ii) Updated information comparable to the information in the chart entitled "City of Lodi Wastewater System Number of Connections by User Type" as it appears in the Official Statement, dated May ___, 2004, relating to the 2004 Certificates (the "Official Statement");

(iii) Updated information comparable to the information in the chart entitled "City of Lodi Wastewater System Proportion of Service Charges by Class of User" as it appears in the Official Statement;

(iv) Updated information comparable to the information in the chart entitled "City of Lodi Wastewater System Largest Users by Service Charge Revenues" as it appears in the Official Statement;

(v) Updated information comparable to the information in the charts entitled "City of Lodi Wastewater System Schedule of Service Charges" as it appears in the Official Statement; and

(vi) Updated information comparable to the information in the charts entitled "City of Lodi Wastewater System Summary of Historic Operating Results," as it appears in the Official Statement.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or public entities related thereto, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2004 Certificates, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) modifications to rights of 2004 Certificate holders;
- (iv) optional, contingent or unscheduled 2004 Certificate prepayments;
- (v) defeasances;
- (vi) rating changes;

- (vii) adverse tax opinions or events affecting the tax-exempt status of the 2004 Certificates;
- (viii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (ix) unscheduled draws on the credit enhancements reflecting financial difficulties;
- (x) substitution of the credit or liquidity providers or their failure to perform; or
- (xi) release, substitution or sale of property securing repayment of the 2004 Certificates.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e).

(d) If the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board or the National Repositories and to the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected 2004 Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The obligations of the City and the Trustee under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2004 Certificates.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Union Bank of California, N.A. The Dissemination Agent may resign by providing thirty days' written notice to the City. If at any time there is no designated Dissemination Agent appointed by the City or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the City shall be the Dissemination Agent and shall undertake or assume its obligations hereunder. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the City which does not impose any greater duties nor any greater risk of liability on the Trustee), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2004 Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2004 Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the 2004 Certificates in the same manner as provided in the Trust Agreement with respect to amendments to the Trust Agreement which require the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the 2004 Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in its next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the manner as provided under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report.

SECTION 10. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of outstanding 2004 Certificates, shall), but only to the extent funds in an amount satisfactory to the Dissemination Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Dissemination Agent whatsoever, including, without limitation, fees and expenses of its attorneys, or any Owner or Beneficial Owner of the 2004 Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Section 6.02 of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: May ____, 2004

CITY OF LODI

By: _____
H. Dixon Flynn
City Manager

APPROVED AS TO FORM:

D. Stephen Schwabauer
Interim City Attorney

ATTEST:

Susan J. Blackston
City Clerk

UNION BANK OF CALIFORNIA, N.A.,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

An updated list of Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission may be found at the following internet address:
<http://www.sec.gov/consumer/NRMSIR.htm>

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF LODI, CALIFORNIA

Name of Issue: WASTEWATER SYSTEM REVENUE CERTIFICATES OF PARTICIPATION,
2004 SERIES A

Date of Issuance: May __, 2004

NOTICE IS HEREBY GIVEN that the City of Lodi, California (the "City") has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Agreement, dated May __, 2004, between the City and Union Bank of California, N.A., as trustee. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

UNION BANK OF CALIFORNIA, N.A.,
as trustee, on behalf of the City of Lodi

By: _____
Title: _____

cc: City of Lodi

RESOLUTION NO. 2004-78

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI
APPROVING THE FORMS OF AN INSTALLMENT PURCHASE CONTRACT,
A CERTIFICATE PURCHASE CONTRACT, A PRELIMINARY OFFICIAL
STATEMENT, AND A CONTINUING DISCLOSURE AGREEMENT RELATING
TO WASTEWATER SYSTEM REVENUE CERTIFICATES OF PARTICIPATION,
2004 SERIES A; AND APPROVING AND AUTHORIZING CERTAIN OTHER
MATTERS RELATING THERETO

WHEREAS, the City of Lodi, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), owns and operates a municipal wastewater system (the "System"), to provide for the collection, treatment, and disposal of wastewater; and

WHEREAS, the City proposes to make certain additions, betterments, extensions, replacements, and improvements to the System (the "Project"); and

WHEREAS, the Lodi Public Improvement Corporation (the "Corporation") is a nonprofit public benefit corporation formed for the purpose of assisting the City in financing capital improvements such as the Project; and

WHEREAS, the Corporation has agreed to assist the City by acquiring or causing the acquisition of the Project and selling the Project to the City pursuant to the terms of an Installment Purchase Contract (the "Installment Purchase Contract"); and

WHEREAS, pursuant to the Installment Purchase Contract, the City will be obligated to make installment payments (the "Installment Payments") to the Corporation as the purchase price of the Project; and

WHEREAS, the Corporation will assign certain of its rights under the Installment Purchase Agreement, including its rights to receive the Installment Payments, to Union Bank of California, N.A. (the "Trustee") pursuant to a Trust Agreement (the "Trust Agreement") between the Corporation and the Trustee; and

WHEREAS, pursuant to the Trust Agreement, the Trustee is to execute and deliver City of Lodi Wastewater System Revenue Certificates of Participation, 2004 Series A (the "Certificates"), evidencing the proportionate interests of the owners thereof in the Installment Payments; and

WHEREAS, the proceeds of the sale of the Certificates are to be applied, among other things, to the costs of the Project as provided in the Trust Agreement; and

WHEREAS, the City proposes to prepare and distribute a Preliminary Official Statement and a final Official Statement in connection with the offer and sale of the Certificates; and

WHEREAS, the City proposes to execute and deliver a Certificate Purchase Contract (the "Certificate Purchase Contract") with First Albany Capital Inc. (the "Underwriter"), pursuant to which the Underwriter will purchase the Certificates for reoffering to the public; and

WHEREAS, all acts, conditions, and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form, and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LODI, AS FOLLOWS:

Section 1. The City Council hereby specifically finds and determines that the actions authorized hereby constitute and are with respect to the public affairs of the City and that the statements, findings and determinations of the City set forth above and in the preambles of the documents approved herein are true and correct and that the consummation of the transactions contemplated therein shall result in significant public benefits to the City in that the City expects to improve the efficient operation of the City's System through the financing of the Project as provided in the Installment Purchase Contract and the Trust Agreement.

Section 2. The Installment Purchase Contract, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager, the Finance Director and the Public Works Director, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Corporation the Installment Purchase Contract in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that the principal component of the Installment Payments set forth in Exhibit B to the Installment Purchase Contract shall not exceed Twenty-Nine Million Five Hundred Thousand Dollars (\$29,500,000); provided further that the interest components on the principal components of the Installment Payments set forth in Exhibit B to the Installment Purchase Contract shall not exceed such rate or rates that the true interest cost with respect to the Certificates is greater than five percent (5%); and provided further that no Installment Payment shall be scheduled for payment later than 35 years from the date of initial delivery of the Certificates.

Section 3. The Certificate Purchase Contract, proposed to be executed and entered into by and between the City and the Underwriter, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager, the Finance Director and the Public Works Director, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Underwriter the Certificate Purchase Contract in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the Underwriter's discount in connection with the sale of the Certificates shall not exceed ninety-five hundredths (.95) of one percent of the principal components of the Installment Payments evidenced by the Certificates.

Section 4. The Preliminary Official Statement, in the form presented at this meeting and on file with the City Clerk, is hereby approved. The City Manager, the Finance Director and the Public Works Director, each acting singly, are hereby authorized and directed to cause the Preliminary Official Statement to be distributed to potential purchasers of the Certificates in substantially the form presented to this meeting with such changes therein as the officer deeming the Preliminary Official Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission

("Rule 15c2-12") may approve, such approval to be conclusively evidenced by such officer deeming the Preliminary Official Statement final for purposes of Rule 15c2-12. The City Manager, the Finance Director and the Public Works Director, each acting singly, are hereby authorized and directed to deem the Preliminary Official Statement final for purposes of Rule 15c2-12 except for such information as may be omitted from the Preliminary Official Statement under Rule 15c2-12.

Section 5. The preparation and delivery of a final Official Statement, and its use by the Underwriter, in connection with the offering and sale of the Certificates are hereby approved. The Official Statement shall be substantially in the form of the Preliminary Official Statement deemed final for purposes of Rule 15c2-12 pursuant to Section 4 of this Resolution, with such changes as the officer executing the Official Statement may approve, such approval to be conclusively evidenced by such officer's execution and delivery thereof. The City Manager, the Finance Director and the Public Works Director, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Official Statement and any amendment or supplement thereto contemplated by the Certificate Purchase Contract, in the name and on behalf of the City, and thereupon to cause the final Official Statement and any such amendment or supplement to be delivered to the Underwriter.

Section 6. The Continuing Disclosure Agreement, proposed to be executed and entered by the City and the Trustee, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager, the Finance Director and the Public Works Director, each acting singly, are hereby authorized and directed for and in the name and on behalf of the City to execute and deliver the Continuing Disclosure Agreement in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. The City Clerk is hereby authorized and directed to attest the signature of the City Manager, the Finance Director, and the Public Works Director and to affix and attest the seal of the City, as may be required or appropriate, in connection with the execution and delivery of the Certificates and the documents approved by this Resolution.

Section 8. Each officer of the City is hereby authorized and directed, acting singly, to do any and all things (including the negotiating and obtaining of a municipal bond insurance policy and/or reserve fund surety bond with respect to the Certificates if the City Manager, the Finance Director or the Public Works Director determines that such insurance policy or surety bond is expected to result in savings to the City) and to execute and deliver any and all documents which such officer may deem necessary or desirable in order to consummate the transactions authorized hereby and to consummate the sale, execution and delivery of the Certificates and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Installment Purchase Contract, the Certificate Purchase Contract, the Preliminary Official Statement, the Official Statement and the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 9. This Resolution shall take effect immediately upon its passage.

Dated: April 27, 2004

=====

I hereby certify that Resolution No. 2004-78 was passed and adopted by the Lodi City Council in a special meeting held April 27, 2004, by the following vote:

AYES: COUNCIL MEMBERS – Beckman, Hitchcock, Howard, Land, and Mayor Hansen

NOES: COUNCIL MEMBERS – None

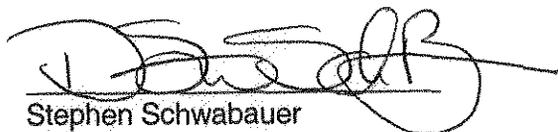
ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None



SUSAN J. BLACKSTON
City Clerk

Approved As to Form:

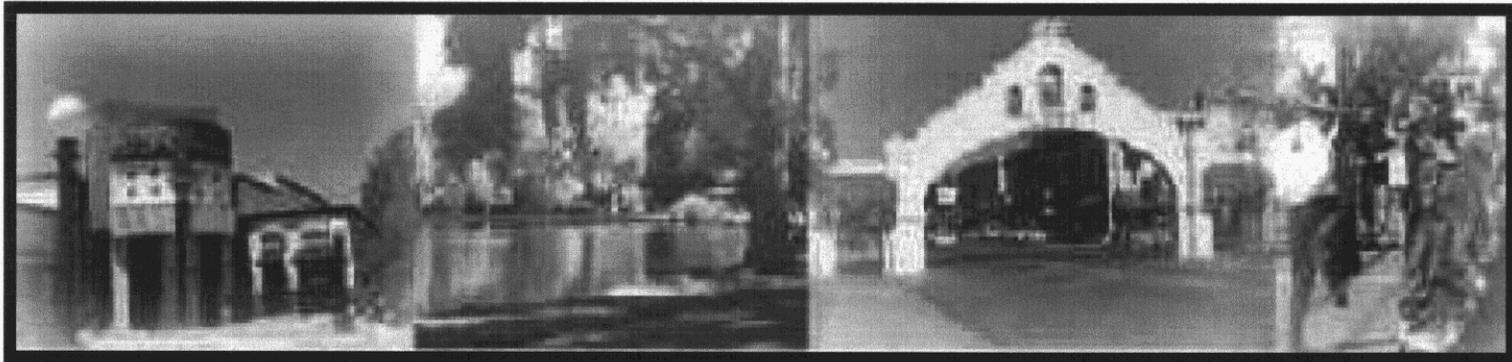


Stephen Schwabauer
Interim City Attorney

filed 4-27-04

Presentation to:

Lodi City Council



on

White Slough Water Pollution Control Facility and Related Financing

April 27, 2004

Contents



- Wastewater System Revenue Certificates of Participation, 2004 Series A
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- Appendix:
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 - Summary of Rate Covenant Requirements



**Wastewater System Revenue
Certificates of Participation, 2004 Series A**

Summary of Financing



Overview of 2004 COPs

Proceeds	\$25 million
Par Amount⁽¹⁾	\$27 million
Purpose	Phase II of White Slough
Security	System Net Revenues of Wastewater Enterprise
Structure⁽²⁾	<ul style="list-style-type: none">• 20-year fixed rate COP financing with level debt service• Lessee = City of Lodi• Lessor = Lodi Public Improvements Corporation
Call Provision	Optional redemption beginning 10/1/14 @ 100%
Reserve Fund	TBD - Surety or bond-funded
Assumed Rate	4.68%
Underwriter	First Albany Capital
Bond Counsel	Orrick, Herrington & Sutcliffe

(1) Assuming bond-funded reserve fund.

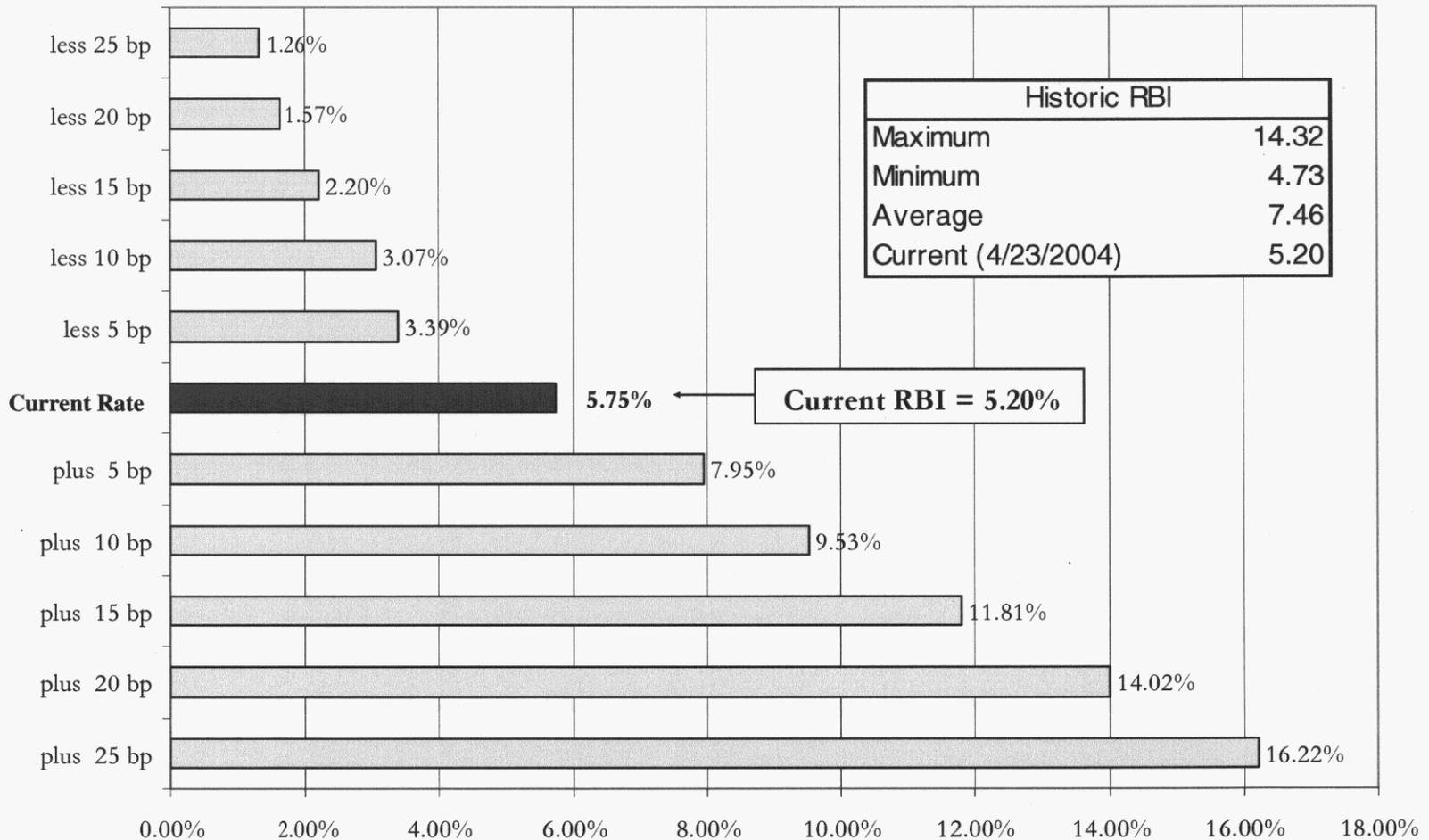
(2) COP Structure = An arrangement in which investors buy certificates that entitle them to receive a participation, or share, in the lease payments from a particular project or enterprise.

Market Update



- Long term tax-exempt rates have risen in the last month but remain near historical lows.

Percentage of Time RBI has been lower than Current Levels

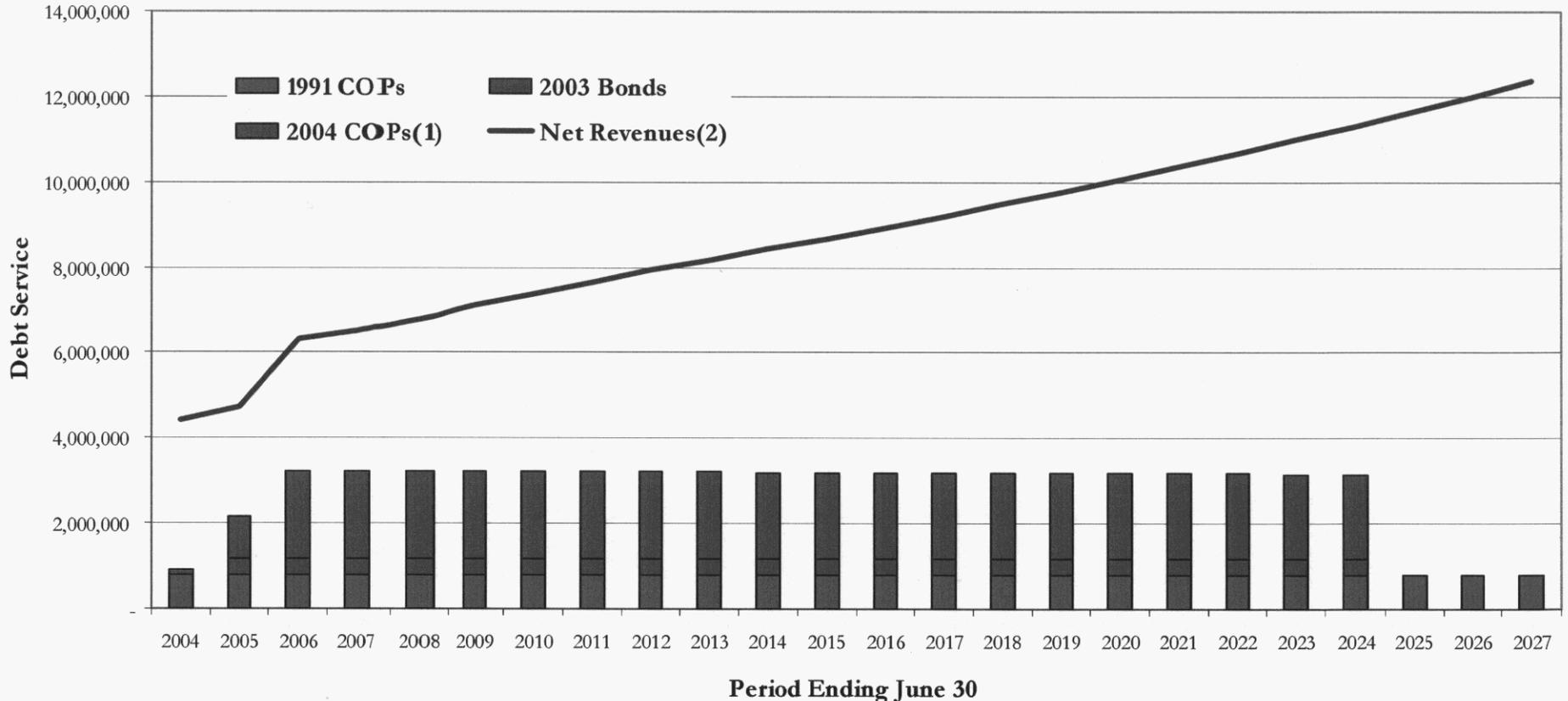


Projected Debt Service Requirements



➤ Projected debt service requirements are approximately \$3.1 million through FY 2024 with the 2004 COPs.

Summary of Projected Debt Service Requirements



(1) Net of debt service reserve fund earnings.

(2) Inflated at 3% after FY 2012.

Summary of Debt Service Reserve Fund



- Based on insurance bids, the DSRF may be funded with a surety or from bond proceeds.

Summary of DSRF Funding Alternatives⁽¹⁾		
	Surety	Bond-Funded
Par Amount of COP	\$25,040,000	\$27,085,000
Negative Arbitrage from CF	(\$350,000)	(\$350,000)
Cost of Surety	(\$58,960)	-
Interest Expense	-	(\$3,105,545)
Interest Earnings	-	\$3,320,545
Present Value Net Benefit (Cost)	(\$408,960)	(\$135,000)

(1) Market conditions as of April 27, 2004.

Summary of Additional Bonds Test



- While the FY 03 actuals and FY 04 budget demonstrate sufficient revenues for the rate covenant, a rate increase will be necessary for the additional bonds test.
- Proposed rate increases are currently expected to generate sufficient revenues to meet the additional bonds test for the 2006 financing.

	Actual FY 02-03	Budgeted FY 05-06
Gross Revenues (a)	7,176,493	11,139,056
Operating Expenses (b)	(3,941,714)	(4,807,444)
System Net Revenues (c)	3,234,779	6,331,612
Less: Connection Fees (d)	(1,394,287)	(1,150,797)
Adjusted System Net Revenues (e)	1,840,492	5,180,815
Total Max Annual Parity Debt ⁽¹⁾ (l)	3,314,160	4,739,284
1991 Additional Bonds Test for 2004 COPs		
System Net Revenues (c)	3,234,779	6,331,612
Plus: Proposed Rate Increases (i)	1,504,724	-
Total Net Revenues for ABT (j)	4,739,503	6,331,612
Less: Connection Fees (d)	(1,394,287)	(1,150,797)
Total Adjusted Net Revenues for ABT (k)	3,345,216	5,180,815
Net Revenues (j/l) (1.10x)	1.43x	1.34x
Adjusted Net Revenues (k/l) (1.00x)	1.01x	1.09x
2003 Additional Bonds Test for 2004 COPs		
System Net Revenues less GF Transfer (h)	2,738,132	5,493,921
Plus: Proposed Rate Increases (i)	1,504,724	-
Total Net Revenues for ABT (m)	4,242,856	5,493,921
Net Revenues (m/l) (1.10x)	1.28x	1.16x

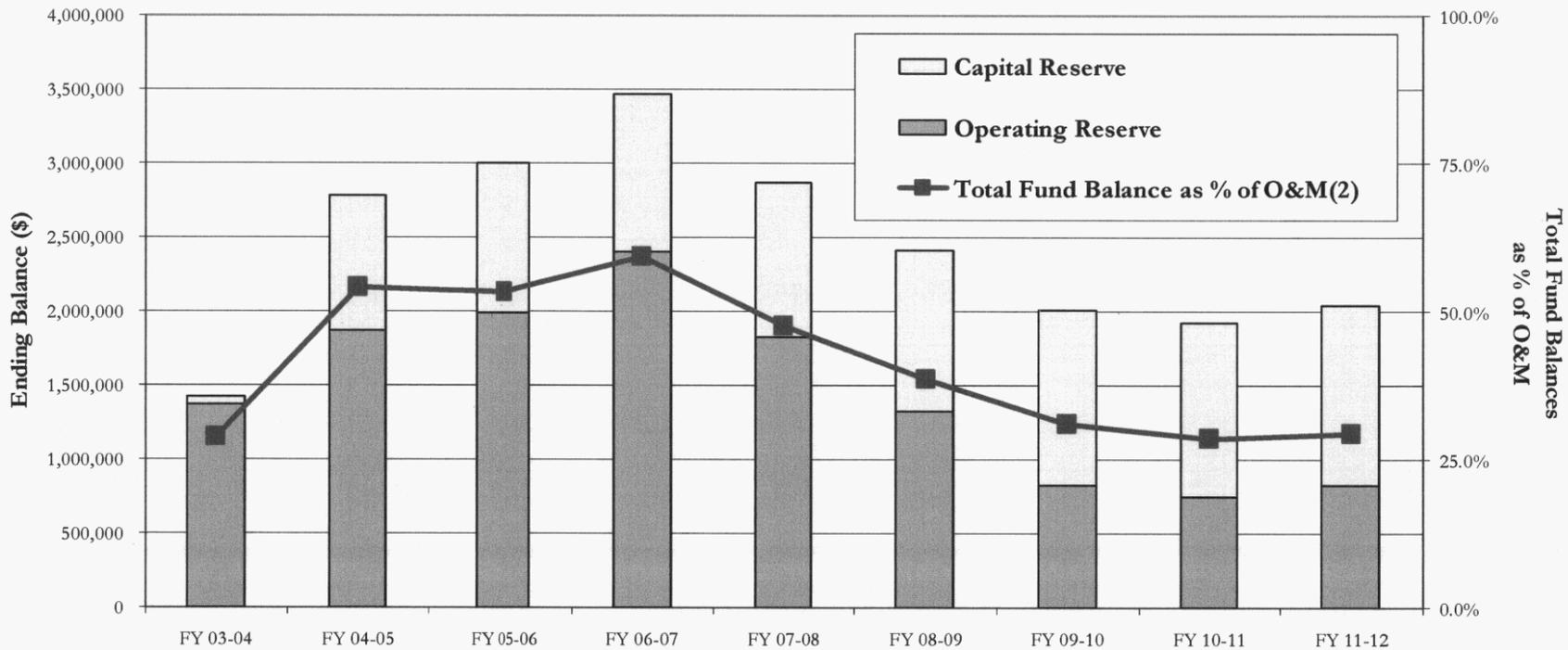
(1) Max annual parity debt after 2004 and 2006 issuances in FY 08.

Projected Fund Balances



- The utility is currently targeting an operating reserve equal to 15% of annual expenditures and a capital reserve equal to 50% of the 10-year average annual cash-funded capital costs.
- Assuming projected rate increases, total fund balances average \$2.162 million or 42.3% of projected average annual expenses through FY 11-12.

Projected Wastewater System Fund Balances⁽¹⁾



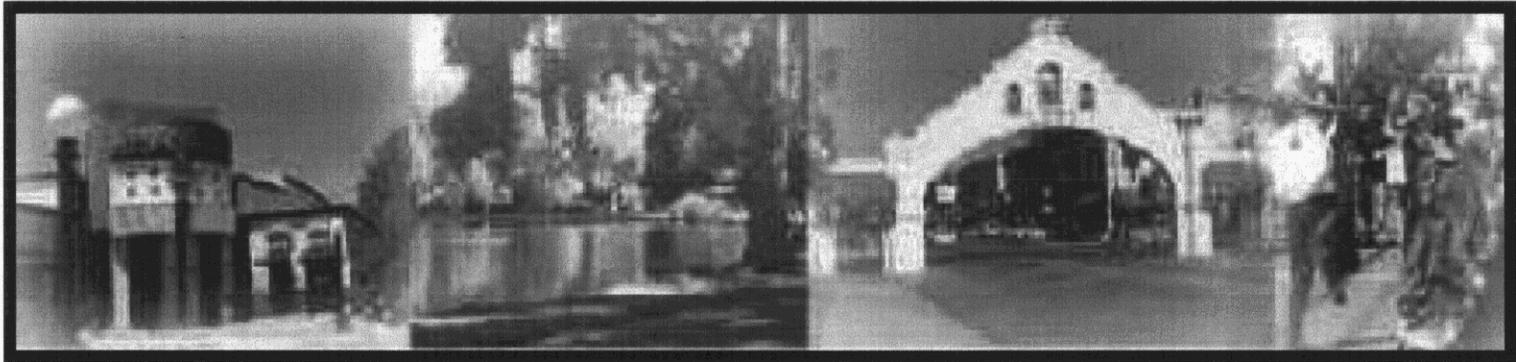
(1) Projected ending fund balances with projected rate increases before capital outlays.

(2) Based on projected annual expenses.

Next Steps



- | | | |
|-------------------------------------|---|-------------|
| <input checked="" type="checkbox"/> | Council Shirt-sleeve Meeting: | March 30 |
| <input checked="" type="checkbox"/> | Rating Agency Meetings: | April 22 |
| ➤ | Final Council Action on Bond Financing: | April 27 |
| ➤ | Receipt of Rating Indications: | May 4 |
| ➤ | Pre-Marketing Period: | May 5 - 10 |
| ➤ | Pricing of 2004 COPs: | May 11 - 12 |
| ➤ | Closing of 2004 COPs: | May 25 - 26 |



Appendix

Summary of Rate Covenants



- The proposed financing is designed to update Lodi's rate covenants over time to the 2003 covenants. The final change will require the refunding of the 1991 COPs when economic.

1991 Covenants

- Rate Covenant:
 1. Net revenues coverage = 1.10x debt service and;
 2. Adjusted net revenues coverage = 1.00x debt service.
- Additional Bonds Test:
 1. Net revenues coverage = 1.10x Max Annual Debt Service (MADS) and;
 2. Adjusted net revenues coverage = 1.00x MADS.
- Adjusted Net Revenues = Net revenues *less fees charged to customers for initial connection to the sewer system.*

2003/2004 Covenants

- Rate Covenant:
 1. System revenues coverage = 1.00x O&M and debt service and;
 2. Net revenues coverage = 1.10x debt service.
- Additional Bonds Test:
 1. Net revenues coverage = 1.10x Max Annual Debt Service (MADS).
- Net Revenues = System revenues less Operations and Maintenance Costs and less General Fund transfer⁽¹⁾.

(1) Subject to GAAP.

Summary of Rate Covenant Requirements



	Actual FY 02-03	Budgeted FY 03-04	Budget FY 04-05	Projected FY 05-06	Projected FY 06-07	Projected FY 07-08
Gross Revenues (a)	7,176,493	8,640,528	9,118,453	11,139,056	11,496,825	11,922,728
Operating Expenses (b)	(3,941,714)	(4,200,021)	(4,387,471)	(4,807,444)	(4,974,812)	(5,148,262)
System Net Revenues (c)	3,234,779	4,440,507	4,730,982	6,331,612	6,522,013	6,774,465
Less: Connection Fees (d)	(1,394,287)	(777,000)	(1,139,403)	(1,150,797)	(1,162,305)	(1,173,928)
Adjusted System Net Revenues (e)	1,840,492	3,663,507	3,591,578	5,180,815	5,359,708	5,600,537
Parity Debt Obligations						
1991 COPs	808,488	807,055	804,798	806,530	807,063	801,653
2003 Bonds	-	88,888	383,148	379,448	380,698	381,848
2004 COPs	-	-	975,015	2,029,909	2,027,084	2,028,434
2006 COPs	-	-	-	-	1,095,302	1,331,985
Total Parity Debt (f)	808,488	895,943	2,162,960	3,215,887	4,310,146	4,543,920
1991 COPs Coverage/Rate Covenant						
Net Revenues (c/f) (1.10x)	4.00x	4.96x	2.19x	1.97x	1.51x	1.49x
Adjusted Net Revenues (e/f) (1.00x)	2.28x	4.09x	1.66x	1.61x	1.24x	1.23x
2003 Bonds, 2004 COPs Coverage/Rate Covenant						
System Net Revenues (c)	3,234,779	4,440,507	4,730,982	6,331,612	6,522,013	6,774,465
Less: General Fund Transfer (g)	(496,647)	(755,040)	(759,885)	(837,691)	(865,592)	(900,786)
System Net Revenues less GF Transfer (h)	2,738,132	3,685,467	3,971,096	5,493,921	5,656,421	5,873,679
Gross Revenues (a/b+f) (1.00x)	1.51x	1.70x	1.39x	1.39x	1.24x	1.23x
Net Revenues (h/f) (1.10x)	3.39x	4.11x	1.84x	1.71x	1.31x	1.29x

Summary of Assumptions

- \$25 million, 20 year level debt service financing for 2004 COPs.
- Projected rate increases are approved.
- Include effects of 2006 financing but no refunding of 1991 COPs.
- General Fund transfer in 2003 documents is part of O&M but depends on GAAP.